Maple Leaf Foods

STRAIGHT TALK



2003 Annual Report

MAPLE LEAF FOODS

Maple Leaf Foods is a leading Canadian food processor, exporting to over 80 countries worldwide. The Company's Protein Value Chain operations include value-added pork, poultry and processed meat products, hog production, feed and animal nutrition programs, and rendering. The Company's Bakery Products operations include fresh and frozen bakery products.

Maple Leaf Foods is a public company with shares trading on the Toronto Stock Exchange under the symbol MFI. Headquartered in Toronto, Canada, the Company employs more than 18,000 people at its operations across Canada and in the United States, Europe and Asia.

SOME OF OUR WINS IN 2003

- Signed an agreement to purchase Schneider Corporation; when closed, the transaction will more than double Maple Leaf's value-added processed meat and grocery products operations
- Strengthened market position for *Maple Leaf* brand products and our commitment to food safety leadership through our *We Take Care*™ brand promise
- Launched *Dempster's Stays Fresh to the Last Slice*™ which drove our market growth in the sliced-bread category
- Achieved significant progress in integrating the Multi-Marques bakery acquisition in Quebec and realizing synergies
- Launched premium line of fresh *Maple Leaf Fully Cooked Roasts*™, ready to serve in just 10 minutes, and gained national category leadership
- Increased value-added processing and improved the sales mix in our fresh pork operations
- Increased pork exports to Mexico, supporting our goal to grow and diversify in international markets
- Achieved double-digit growth of *Maple Leaf Prime Naturally*™ chicken and significantly increased margins in our poultry business
- Completed 100 Six Sigma projects and 2,400 days of leadership training
- Secured market leadership in our feed business by building two new world-class feed mills
- Installed a $13 million odour abatement and wastewater treatment system at Rothsay's rendering plant in Dundas, Ontario
- Developed a DNA traceability program, allowing full tracking of pork products from the consumer to the farm of origin

Straight Talk

This report is a candid account of Maple Leaf's performance in 2003 and outlines how we plan to do better in 2004 and beyond. As investors, employees and other readers who are interested in our business, you are entitled to the unabridged version.

Suffice it to say that it was an unusual year, but then not every year unfolds according to plan. 2003 was tough on everyone in the pork industry, the result of a global over-supply of protein. Our results were also impacted in some areas that were within our control – we have learned lessons and made corrections for the future. We also had some big wins, grew market share across our businesses, and achieved best-ever workplace safety results. Our investments in training, leadership development and Six Sigma are paying off.

We are more convinced than ever that our strategy is right. Everything that we do is aimed at adding value, providing customers and consumers with premium quality, and delivering the highest standard of food safety assurance. It's what we stand for.

One of our six Leadership Edge values is "Dare to be Transparent". At a time when public trust in institutions, from corporate governance to food safety, is at an all-time low, our Company-wide theme for 2004 – Straight Talk – reflects our commitment to honesty and transparency in all that we do.

Maple Leaf Foods Operations Overview 2003

Protein Value Chain

OPERATION	PRIMARY PRODUCTS AND SERVICES	PRIMARY MAR
Consumer Foods	Branded, pre-cooked prepared meat products including bacon, ham, wieners, fully cooked roasts, deli and canned meats	Canada
Pork	Primary processing of fresh, frozen and value-added pork products, including *Maple Leaf Medallion Naturally*™ branded pork	Canada, United States and Japar
Poultry	Primary processing of fresh, frozen and value-added chicken and turkey products, including *Maple Leaf Prime Naturally*™ branded chicken	Canada
International	Global marketing, distribution and trading, including pork products, seafood, grain and soy products, pre-cooked meat and poultry products, french fries and pet food	Japan, Hong Kong, China, Mexic Kingdom, South Korea and the U
Shur-Gain	Animal nutrition programs including Shur-Gain branded swine, dairy and beef cattle, poultry, aquaculture, equine and pet food	Agricultural markets in Ontario, Q Canada and parts of the United S
Landmark Feeds	Animal nutrition programs including swine, dairy and beef cattle, and poultry	Agricultural markets in Western C
Elite Swine	Swine production and swine genetics	Western Canada, Ontario and the United States
Rothsay	Rendering of animal by-products into value-added products including animal feed, amino acid supplements, alternative fuel and many industrial uses	Ontario, Manitoba, Quebec, Atlan the United States, and global mar

Bakery Products

OPERATION	PRIMARY PRODUCTS AND SERVICES	PRIMARY MAR
Fresh Foods	Production and distribution of fresh baked products including bread, rolls, bagels, artisan breads and sweet goods; *Dempster's*™ is the national brand leader and *Olivieri*™ fresh pasta and sauce products	Canada and the United States
Frozen Foods	Production and distribution of frozen par-baked bread, rolls, and bagels including the *New York Bagel*™ brand and specialty breads	Canada, the United States and th

	INFRASTRUCTURE	DID YOU KNOW?
	10 Plants 6 Offices	The *Maple Leaf* brand dates back to 1898, with over 300 varieties of pre-cooked products currently produced
	5 Plants 4 Offices	*Maple Leaf Medallion Naturally*™ is Canada's leading brand of pork fed 100% all vegetable grain feed containing no animal by-products
	6 Plants 1 Office	*Maple Leaf Prime Naturally*™, is Canada's leading brand of value-added chicken fed 100% all vegetable grain feed containing no animal by-products
ny, United es	2 Plants 10 Trading Offices	Maple Leaf Foods is Canada's largest exporter of food products to more than 80 countries
lantic	13 Mills 4 Offices 3 Hatcheries 3 Research Facilities 7 Retail Sales Centres	Shur-Gain is a leader in animal nutrition research and development and is Eastern Canada's leading animal nutrition company, serving the agricultural marketplace for over 65 years
	10 Feed Mills 2 Offices	Landmark Feeds is Western Canada's leading feed company and expects to produce over 800,000 tonnes in 2004
	4 Regional Offices	In 2003, Elite Swine had approximately 116,000 sows under management
la,	6 Plants	Rothsay is Canada's largest recycler of animal by-products, and the only independent rendering operation in North America to achieve HACCP compliance

	INFRASTRUCTURE	DID YOU KNOW?
	24 Plants 4 Offices 23 Major Distribution Centres	Canada's leading producer of whole-grain breads, with leading brands such as *Dempster's*®, *Pom*, *Ben's*, and *Healthy Way*™; *Olivieri*™ is Canada's leading brand of fresh pasta and sauces
Kingdom	11 Plants 1 Office	The leading producer of partially-baked or "par-baked" premium bread products in North America; the leading supplier of bagels in the United Kingdom

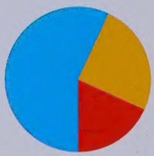
Financial Highlights

For years ended December 31 (in millions of Canadian dollars, except share information)	2003	2002	2001	2000	1999
Consolidated results					
Sales	**$ 5,042**	$ 5,076	$ 4,775	$ 3,943	$ 3,530
Earnings from operations before restructuring costs	**152**	204	158	90	147
Net earnings	**35**	85	57	37	77
Return on net assets employed (i)	**6.4%**	9.2%	7.6%	5.4%	9.5%
Financial position					
Net assets employed (ii)	**$ 1,596**	$ 1,458	$ 1,405	$ 1,298	$ 1,148
Shareholders' equity	**743**	732	660	451	465
Total net borrowings	**697**	579	599	722	566
Per share					
Net earnings	**$ 0.27**	$ 0.71	$ 0.55	$ 0.34	$ 0.77
Dividends	**0.16**	0.16	0.16	0.16	0.16
Book value	**5.72**	5.64	5.05	3.77	3.93
Number of shares (millions)					
Weighted average	**113.1**	112.5	95.9	95.1	94.4
Outstanding at December 31	**113.2**	112.9	112.0	95.1	95.0

(i) After tax, but before interest, calculated on average month-end net assets employed. Excludes restructuring costs in 2003 and significant gains on asset sales in 1999 and 2000.

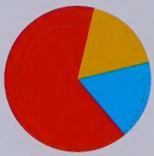
(ii) Total assets, less cash and non-interest bearing current liabilities.

SALES BY GROUP



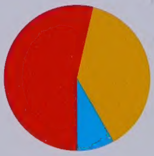
- 56.9% Meat
- 24.9% Bakery
- 18.2% Agribusiness

DOMESTIC VS. INTERNATIONAL SALES



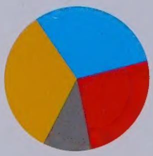
- 64.8% Domestic
- 17.5% U.S.
- 17.7% Other International

OPERATING EARNINGS BEFORE RESTRUCTURING COSTS



- 53.6% Agribusiness
- 38.1% Bakery
- 8.3% Meat

TOTAL ASSETS BY GROUP



- 33.3% Bakery
- 31.0% Meat
- 25.9% Agribusiness
- 9.8% Not allocated

Protein Value Chain

MEAT PRODUCTS GROUP

(in millions of Canadian dollars)	2003	2002	% change
Sales to Customers	$ 2,869.9	$ 2,952.9	(2.8)%
Earnings from Operations Before Restructuring Costs	12.7	66.8	(81.0)%
Total Assets	666.5	694.0	(4.0)%

AGRIBUSINESS GROUP

(in millions of Canadian dollars)	2003	2002	% change
Sales to Customers	$ 918.8	$ 943.9	(2.7)%
Earnings from Operations Before Restructuring Costs	81.6	66.8	22.2 %
Total Assets	555.7	500.0	11.1 %

TOTAL FINANCIAL RESULTS – PROTEIN VALUE CHAIN

(in millions of Canadian dollars)	2003	2002	% change
Sales to Customers	$ 3,788.7	$ 3,896.8	(2.8)%
Earnings from Operations Before Restructuring Costs	94.3	133.6	(29.4)%
Total Assets	1,222.2	1,194.0	2.4 %

OPERATING GROUPS

Meat Products Group • Includes Consumer Foods, Pork, Poultry, and International operations.

Agribusiness Group • Includes Hog Production, Feed and Rendering operations.

Bakery Products Group

BAKERY PRODUCTS GROUP

(in millions of Canadian dollars)	2003	2002	% change
Sales to Customers	$ 1,253.2	$ 1,179.1	6.3 %
Earnings from Operations Before Restructuring Costs	58.1	70.0	(17.0)%
Total Assets	716.5	742.8	(3.5)%

Bakery Products Group • Comprised of Maple Leaf's 84.7% ownership in Canada Bread Company, Limited, a leading producer and distributor of fresh bakery products, frozen partially-baked or "par-baked" products, and fresh pasta and sauces, supported by operations across Canada and in the United States and the United Kingdom.

LETTER FROM THE CHAIRMAN

G. Wallace F. McCain
Chairman

FELLOW SHAREHOLDERS:

When McCain Capital Corporation and Ontario Teachers' Pension Plan Board acquired Maple Leaf Foods back in 1995, it was largely my responsibility to make sure we established a strong Board of Directors – one that would help us realize the value of our Company. I had no desire to fill a board with insiders. What we wanted were smart and experienced people who didn't need the position but chose it because they believed in our vision and what we could achieve together.

Well, we succeeded admirably. Based on the calibre of our members, Maple Leaf has one of the strongest boards in Canada. Ours is a corporate governance model of active fiduciary accountability where board members with diverse business and industry experience are very adept in responding to complex issues. Maple Leaf board members take their role very seriously; they speak their minds, challenge assumptions, and probe issues without reservation. The exchange is a healthy dynamic that ensures management is working for the long-term best interests of the Company and its shareholders.

Last year was a difficult one for our industry, and during tough times shareholders rightly ask what the board did to preserve shareholder value. Regular and detailed performance reports by operating management kept us well informed about business risks and actions taken. We worked diligently to understand the environment and market factors that affected our businesses, and we pushed hard in areas where we felt management could make improvements.

Going forward, we are firmly convinced this Company has the right fundamentals in place and is headed in the right direction to build long-term value for shareholders. We have a strong management team supported by a Leadership Edge culture designed for high performance. This year, with a little less turbulence in the market, and armed with very clear and achievable business targets, we are looking for results that are a better reflection of the investments in assets and processes that our Company has put in place.

On behalf of the Board of Directors I would like to thank management and employees for their energy, passion and commitment to making Maple Leaf Foods a strong company.

Sincerely,

G. Wallace F. McCain, *Chairman*

Culture and Focus

Leadership Edge, Six Sigma and Core Strategies

What separates good companies from great ones is being aligned around the important matters of vision and values, and then harnessing the energy that comes from a shared culture. Our Maple Leaf culture goes far beyond plaques on the wall... it is the code that guides our actions and builds our success.

LEADERSHIP EDGE – A WINNING FORMULA

Our commitment to attracting, developing, motivating and retaining top talent is profound. It encompasses careful recruiting, promoting workplace mobility and formal programs at our Leadership Academy, to coaching and rank ordered assessments from our Leadership Edge reviews. And it works! In 2003, retention of our top performers exceeded 99%, well above industry average. Strict pay-for-performance compensation supports the top contributors and long-term incentives only trigger when we exceed industry benchmarks. Maple Leaf Foods is a place where energetic people who thrive on challenge excel.

SIX SIGMA – EVERYTHING CAN BE MEASURED AND IMPROVED

How do you translate continuous improvement into action? Six Sigma provides the discipline, tools, and common framework to drive our performance-based culture. Maple Leaf Foods is a Six Sigma organization because it helps deliver breakthrough ideas and bottom-line results. It forces us to be courageous – to challenge assumptions and think counter-intuitively. In 2003, Six Sigma supported bold initiatives, including: DNA traceability for pork; streamlining our detailed financial reporting process; engineering automated controls to prevent cross-contamination at our feed mills; and improving meat yields in our poultry processing operations. In our fourth year of implementation, Six Sigma has become an essential part of Maple Leaf culture.

GROWTH DRIVERS – EXECUTING OUR CORPORATE AND COMPETITIVE STRATEGIES

1. Be innovative
2. Focus on markets and categories where we can lead
3. Develop brand equity
4. Create customer value
5. Be a low-cost producer
6. Execute with precision and continuous improvement
7. Think global

Michael H. McCain
President and Chief Executive Officer

Fellow Shareholders: Cutting right to the chase – 2003 was a difficult year, not only for Maple Leaf Foods, but also for our entire industry.

From experience, we have learned that building shareholder value does not happen in a straight line. And, while we have encountered event-based earnings declines in the past, due to large-scale cost restructuring or massive plant start-ups that we initiated, 2003 was simply a tough year all around. It would be too easy to play the "blame game" pointing to market conditions. The truth is that in 2003, we faced more than our fair share of operational challenges, which exacerbated the impact of very challenging global market conditions. This letter is a straight and candid account of what we learned and how we are applying these experiences to building a stronger company.

The bottom line of our performance in 2003 was:

- Sales were down 0.7% to $5.0 billion
- Earnings from operations before restructuring costs declined by 25% to $152.4 million
- Earnings per share declined 62% from $0.71 to $0.27
- EBITDA decreased by 23% to $234.2 million from $305.1 million
- Cash provided by operating activities was $74.9 million compared to $195.8 in 2002
- Capital expenditures were $132.6 million
- Business acquisitions totalled $81.8 million
- Return on net assets fell from 9.2% to 6.4%
- Share price closed the year at $10.50, down 4.1%, underperforming the S&P Food Products Index which increased 8.9%

Overall, these are not statistics we are proud of. That said, winning teams don't win every game. We know we have an exceptionally capable and highly energized management team throughout the organization, who are determined to win. We are confident our strategies are sound. We have excellent assets and have taken decisive action, in many cases leading the industry, to ensure our long-term competitiveness. And,

we are convinced we have addressed and learned from the challenges of 2003, and we are heading into 2004 with confidence. One of the central elements of the Maple Leaf culture internally is a commitment to candid, direct communications. We hope you will witness this straight talk in this year's review of 2003.

Challenges Of 2003; Creating A Stronger Foundation

While they were formidable, let's quickly set aside the market conditions facing Maple Leaf in 2003. They were: a glut of protein in the global marketplace, carried over from 2002; a soft Japanese market; the Canadian outbreak of BSE; SARS; massive power failures; and a rapid rise in the Canadian dollar. In most cases, we were quite proud of how our highly competent management team faced and mitigated these various crises, although we won't dwell on that here. Suffice it to say – it was a year to remember.

What is important to focus on are the controllable elements that contributed to the gap in performance for the year, and what we are doing about them. There are six key factors:

1. Over-Weighted In Primary Processing

We estimate that market conditions in North America impacted our 2003 primary pork processing performance by roughly $20 million, against our portfolio in this segment of our business over the year prior. There wasn't much we could do about this. It will come back, and the fundamentals in our categories are actually quite positive over time. Consumption rates are growing; dietary trends for protein are favourable, and capacity utilization is increasing.

Consumption rates are growing; dietary trends for protein are favourable, and capacity utilization is increasing

However, it became evident in 2003 that we are over-weighted in our protein portfolio towards primary processing (the fresh meat value chain), and under-weighted in value-added consumer products (packaged meats and grocery products). This makes us more exposed to difficult fresh protein markets than if we had a more balanced business mix. This doesn't mean the investments we have made in primary processing aren't sound; it simply means we need to grow our business mix in favour of secondary packaged meat and food products to balance these investments.

Response & Action Plan – In response to this, and somewhat fortuitously, in mid-2003 we were presented with the opportunity to acquire Schneider Corporation. While we have considered many options to grow from within, Schneider's appears to be the perfect means to more quickly achieve a balanced business mix. A fuller discussion of what this means to Maple Leaf Foods is described later in this letter.

2. Over Dependence On Japanese Markets

The history of the Canadian pork industry has been to serve the needs of the Japanese markets. This is a very positive thing – most years! Japanese customers are very demanding of quality, service and food safety, and Maple Leaf has steadily grown market share in that region. However, the essential profit driver of a fresh meat business is sales mix – selling the right mix of products, to the optimal mix of customers and geographic regions, and doing so in whole carcass balance on a timely basis due to perishability. Japan has been at the top of this balancing equation for Maple Leaf, but when market forces lead to a downturn in that region, it has a disproportionate impact on our bottom line. Why? Because our business is inadequately developed in alternate markets, particularly the United States. We estimate this cost us in excess of $20 million in 2003, over and above the impact of North American market conditions.

Response & Action Plan – During 2003, we accelerated our efforts to diversify our customer mix, primarily with retail and food service customers in the United States, Mexico and Canada. Japan will always be important to us, but we require more breadth in the sales mix to grow our business and to give us greater stability over time. The benefit of this should be felt over the next two to three years.

3. Exposure To The Canadian Dollar

Who would have thought that the Canadian dollar would rise 17% against the U.S. dollar in less than a year? As an export driven country, Canada must deal directly with this "New Normal" in many industries (sales outside Canada account for 35.2% of our total sales); however there is impact on our domestic business as well, which now face more competition from imports. Our historical risk management strategies have relied on "natural hedges" in our business portfolio. While these are real and meaningful, there is a lag effect when the currency change is so sharp. The negatives, such as the declining value of sales based in U.S. dollars, are felt overnight while the positives in the cost structure seem to trickle in.

Additionally, the analytics of natural hedging are clear when related to the balance sheet and the income statement, but rarely do justice to the effect of changes in "relative competitiveness". For example, Canadian hog producers are facing enormous financial stress as a result of changes to the Canadian dollar. Market hog prices in Canada are indexed to the United States every day, so essentially 100% of a hog producers' revenue is currency exposed. The result in 2003 was approximately $16 per hog on the top line, and the only path to recovering this is through cost restructuring. Maple Leaf is feeling this impact as well, in our direct or indirect ownership of 1.8 million hogs. Overall, we estimate the rapid currency change in 2003 cost us roughly $25 million, spanning both the protein and the bakery businesses.

Response & Action Plan – We are confident we can maintain our competitive advantage despite a higher Canadian dollar. During the second half of 2003, we embarked on an aggressive campaign to adjust our cost structure in every element of our business exposed to currency exchange. In our hog production business, we took very painful but necessary steps to reduce overhead costs, and we asked hog producers to take similar steps as we reflected the impact of the Canadian dollar in our contract positions. We are realigning contracts when they come due, and working to differentiate Canadian pork through initiatives such as DNA traceability. Finally, Maple Leaf is working aggressively with governments and the industry to reduce overall hog feed costs in Canada, which have been negatively impacted by several factors, including significant farm subsidies in the United States.

We are working to differentiate Canadian pork through initiatives such as DNA traceability

4. Atlantic Canada Reorganization

In late 2002, we completed a major overhaul of our Atlantic meat operations to position them for long-term success and to reduce costs. We exited an unprofitable beef processing business, centralized primary pork processing at our Berwick plant and refocused our Moncton facility solely on secondary processing. Levels of productivity and returns in this facility have not been satisfactory to date. Completing these initiatives impacted our bottom-line results in 2003 by about $9 million.

Response & Action Plan – During the course of 2003, we made additional changes to the structure of this business unit in an effort to further reduce costs, provide additional support to restore appropriate performance levels in problem areas, and better serve our customers. Continued progress was felt throughout the year, although it was not entirely resolved by year end. We expect this operation to be successful in 2004.

5. Fresh Bakery Labour Dispute

Maple Leaf Foods is committed to maintaining constructive labour relationships with all our employees represented by over 100 collective agreements. However, we will not compromise the future of our business by agreeing to contracts that risk jeopardizing our competitiveness in the marketplace, nor will we agree to restrictions that impede our ability to manage a successful future – even if it is detrimental to earnings in the short-term. This was the case in a labour dispute at our Quebec fresh bakery distribution facility, which lasted 18 weeks and cost the Company $7.4 million.

Response & Action Plan – Under a new agreement, this business is back on track. Our management team continued to perform with exceptional commitment to customers through this entire dispute, and we actually grew sales during this difficult period. We believe this "protect the customer" approach is best for both our business and for the long-term interests of our employees. Real security comes from a satisfied customer and a healthy business. We are satisfied with the outcome of this situation, although any labour dispute must be viewed with sadness.

6. Frozen Bakery Operations

The structure of the U.S. bakery industry has significant differences when compared to Canada, the most notable being a substantial difference in the aggregate capacity utilization. While this mainly impacts the fresh bakery business and our U.S. business is predominantly frozen in-store par-baked, we were not immune to the impact of the structural differences. As we entered 2003, we were not able to fully pass on the effects of higher flour costs and other inflationary components in our U.S. operations. This was compounded by the impact of equipment start-up issues in our new frozen bakery acquisition in Northern California. In aggregate, this collection of short-term executional issues in our U.S. bakery business cost us approximately $19 million versus our expectations for this business in 2003.

Response & Action Plan – The Canada Bread frozen bakery business has been reorganized into a fully North American management structure. During the second half of 2003, several large new customers were secured which continued the business on its growth trajectory. Enhancements to the U.S. operations have been identified and solutions are being implemented during the first quarter of 2004, and we are now managing to offset increased input costs with necessary pricing increases.

In summary, these six factors more than make up the difference in our actual performance for 2003 versus expectations, and we have action plans in place in each case to create a stronger future.

Excellence In The Face Of Challenge

Tough year aside, we were relentless in maintaining the positive energy of our culture, yielding many inspiring achievements throughout the Company to partially offset the sting of poor financial performance.

Tough year aside, we were relentless in maintaining the positive energy of our culture

In our Meat Products Group, Maple Leaf Pork processed 6.3 million hogs during the year, down 0.1% from the prior year, while the USDA spread between carcass cutout and hog cost declined approximately 15%. Facing the full force of the market storm in 2003, this team kept focused on their ultimate goal. They expanded distribution in retail and food service channels, away from the commodity trading outlets, and achieved new distribution in the *Maple Leaf Medallion Naturally*™ fresh pork program. Operational performance at Brandon, our flagship facility, continued to improve. We made progress towards the goal of expansion to a second shift in Brandon, mostly in proceeding to obtain environmental approvals, although we have

The introduction of *Maple Leaf Fully Cooked Roasts™* has been an enormous national success in Canada

been clear that success in an expanded operation will come mainly from improved market performance through enhancing the sales mix and not from increased plant capacity utilization. This is the focus of business development that will lead to second shift growth. **Maple Leaf Poultry** saw markets improve as supplies came into line with demand. *Maple Leaf Prime Naturally™* chicken led the field in our long-term brand promise, *We Take Care™* with the added product benefit of feeding our chickens only *Maple Leaf NutriPrime™* feed, a special blend of 100% grains containing no animal by-products. The Maple Leaf team is working to find optimal category management strategies with each customer, which will maximize total category performance for the banner through a collaborative marketing approach that benefits both the *Maple Leaf* national brand and customer-owned labels. **Maple Leaf Consumer Foods** moved from strength to strength, particularly in the back half of 2003 with the introduction of *Maple Leaf Fully Cooked Roasts™*. This line of "ready in 10 minutes" products has been an enormous national success in Canada, and we expect to expand the range of products. **Maple Leaf Foods International** struggled with Japanese market conditions, but played an instrumental role in continuing to develop the differentiation strategy for our pork products in that market – not the least of which is a pork traceability system based on "Nature's Bar Code", the DNA of the animal. Early in 2004, we announced the commercialization of this initiative, which will be piloted with our products sold into Japan and then made available to domestic and other international markets. Consumers want assurances of safe and high quality foods, and traceability gives Maple Leaf a clear point of difference. Finally, we are actively seeking additional geographic diversification in our global pork business and making good progress.

In our **Agribusiness Group**, we commissioned new mills in Manitoba and upper New York State, and announced plans for a third plant in Eastern Canada. These new mills lead the industry in terms of efficiency and food safety assurance, and solidify our market leadership. Of particular note was a dramatic improvement in our pet food business performance. Hog production in Canada, on the other hand, is reeling with the financial distress brought on by the impact of two primary factors. First of all, farm subsidies in the United States have depressed feed grain prices in that country, and Canadian farmers require a level playing field. Secondly, the rise in the Canadian dollar has extracted up to $16 per hog off the revenue line, as 100% of this market is priced off U.S. indices. We feel this impact in multiple ways. First, **Elite Swine**, our hog production business, now has 116,000 sows in its system and markets 2.186 million live hogs. Second, we assume an effective hog ownership through fixed price-based hog procurement contracts with producers. Finally, our relationship with producers in Canada is interdependent; our success is contingent on their success and vice versa. The Agribusiness Group, including the feed operations and our Vertical Coordination team, have worked tirelessly to develop plans to adjust to this "New Normal" level of the Canadian dollar and to address the competitive issues around feed costs in Canada for ourselves and our producers. Beyond this, late in 2003 and into 2004, we are continuing to address the situation proactively with a broad sweep of cost cutting to re-align the operations with U.S. benchmarks. At the end of 2003, Maple Leaf had an aggregate effective hog ownership of 28% of our processing requirements, against a target of 30-35%. **Rothsay**, our rendering business, faced the formidable challenge of completely overhauling their business model as a result of a BSE discovery in Western Canada. This significantly impacted the economic value of some products and required our

team to dedicate certain plants to processing beef by-products. They acted quickly and with precision, and as a result sustained the business and grew profitability over a very turbulent period.

The **Bakery Products Group** faced challenges in 2003, but is well positioned heading into 2004. This was the first full year where our entire bakery business was operated as a single entity around the world, as Canada Bread. Reflecting our deep commitment to the bakery business, we invested $74.8 million over the course of 2003 to increase our position in Canada Bread from 68.3% to 84.7% ownership. We have no plans or intentions to make an offer for all outstanding shares; however we may be buyers of additional shares based on market conditions. In the meantime, Canada Bread operates as a full-fledged member of the Maple Leaf family of businesses, taking advantage of all our synergies for the benefit of all shareholders.

> We are seeing movement of demand from traditional white bread towards higher value whole-grain breads

The Fresh bread business continued to integrate prior year acquisitions, and find opportunities to reduce costs. During the year, four bakeries were closed after an exhaustive Six Sigma project was completed to assess the optimal plant network. A key marketing challenge in the bakery business is the growing popularity of "low-carb" diets, although we have yet to see significant impacts on bread demand. Notwithstanding this, we are launching new "low-carb" bread offerings for consumers who wish to make this dietary choice. We are also seeing movement of demand from traditional white bread towards higher value whole-grain breads, a trend that tends to favour us. The Frozen business pursued a similar agenda of integration and cost reduction, although in the context of managing solid growth rates from their leading position in the North American in-store par-baked bread categories. Maple Leaf Bakery, U.K. achieved high growth rates (and is addressing ongoing needs to expand production capacity), as bagel demand continues to soar in the U.K. This team is also expanding their product offerings to hand-held snacks to be produced at its newest facility in Cumbria, England.

In other areas of operational excellence, during 2003 we accomplished an amazing single year reduction in lost time accident frequency rates down 27.5% from 2002 – to reach a record low lost time accident frequency level for the Company. This could only have been accomplished through the enormous effort and focus of thousands of people on this most critical success factor. Safe plants are well run plants. In Six Sigma, we now have over 91 Six Sigma Black Belts throughout the organization, with 100 projects completed in 2003. Consistent with the ongoing commitment to great leadership of passionate people, we invested over 2,400 person days in educational development.

> Consistent with the ongoing commitment to great leadership, we invested over 2,400 person days in development

Financial Commitments

Maple Leaf continues to be a cash generator. In spite of a difficult financial year in 2003, we generated $74.9 million of operating cash flow. We invested in capital expenditures of $132.6 million, acquisitions of $81.8 million, and paid out $19.8 million to Maple Leaf shareholders in the form of dividends. Our return on net assets ("RONA") of 6.4% was highly disappointing, and we will restore this to levels greater than our cost of capital. Our long-range financial performance commitments are to achieve greater than 15% EPS growth over time and to exceed 11.5% RONA. These are aggressive commitments, but we believe we will reach them.

L-R:

Thomas P. Muir
Chief Development Officer

J. Scott McCain
President and
Chief Operating Officer
Agribusiness Group

Richard A. Lan
President and
Chief Operating Officer
Bakery Products Group

Michael H. Vels
Chief Financial Officer

We have an exceptional group that never accepts the status quo

Maple Leaf has a very disciplined approach to managing debt. In 2003, our net debt grew $118 million to $696.7 million and our primary credit measure of total net debt to EBITDA before restructuring costs rose to 2.8 times from 1.9 times last year. Although this ratio is consistent with investment grade credit quality, we continue to closely monitor this and other debt ratios in the context of detailed financial forecasts. We are committed to ensuring we maintain a financial position in line with investment grade credits and will finance new investments using an appropriate mix of debt and equity to ensure that the Company continues to have access to competitively priced capital.

Transformational Event

In September 2003, we signed an agreement to acquire Schneider Corporation, one of Canada's premium producers of high quality value-added meat and grocery products. With over $1.2 billion in sales, 5,000 employees and 20 operations across Canada, the acquisition of Schneider Corporation will allow Maple Leaf to immediately achieve a more optimal balance between our primary and secondary meat processing businesses. The *Schneiders* and the *Maple Leaf* brands each have strong consumer appeal and respective strengths across product categories. The Schneider's management team has built an exceptional business and we look forward to the opportunity to welcome them into the Maple Leaf group of companies. Innovation has been at the core of their success and their product lines will significantly complement Maple Leaf's. Together we will focus on adding value for our customers and providing exciting new opportunities for our employees in an organization with significantly larger scale and scope to compete in a global industry. As we go to print, the transaction is still under review by the Canadian Competition Bureau, as their approval is required to finalize the acquisition.

A Steady Eye On The Path Ahead

Notwithstanding the trials of 2003, we are convinced each, in its own way, will contribute to a stronger future. We are confident and excited about our future. We will keep a steady eye on what it takes to create a great organization; one that is able to perform at higher levels in global markets – one that is built to last and to grow profitably for decades to come. We will continue to build value through excellence in our Leadership Edge and Six Sigma, the DNA of Maple Leaf Foods. The benefits of these commitments are being felt in tangible ways every day we come to work.

Our strategies will continue to be focused on achieving these goals:

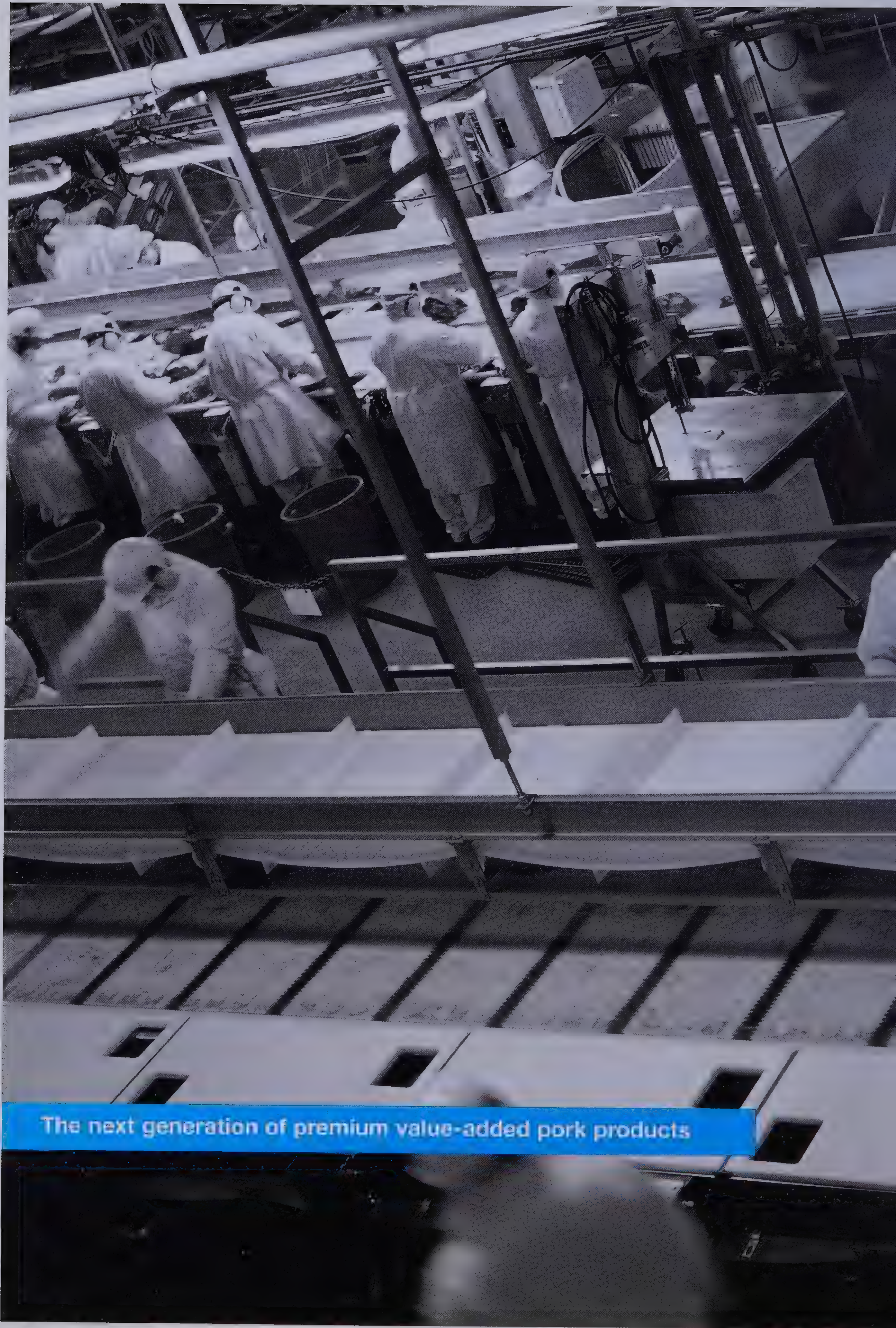
1. Build market shares in our core categories
2. Build our brands
3. Keep our costs low
4. Innovate
5. Add value for our customers
6. Add value to our products, and
7. Diversify globally

We would like to thank our employees for applying their talent and dedication to Maple Leaf in so many ways. We have an exceptional group that never accepts the status quo. Their ingenuity, commitment, and competitive spirit make Maple Leaf Foods a great place to work. People with passion and extraordinary discipline will prevail!

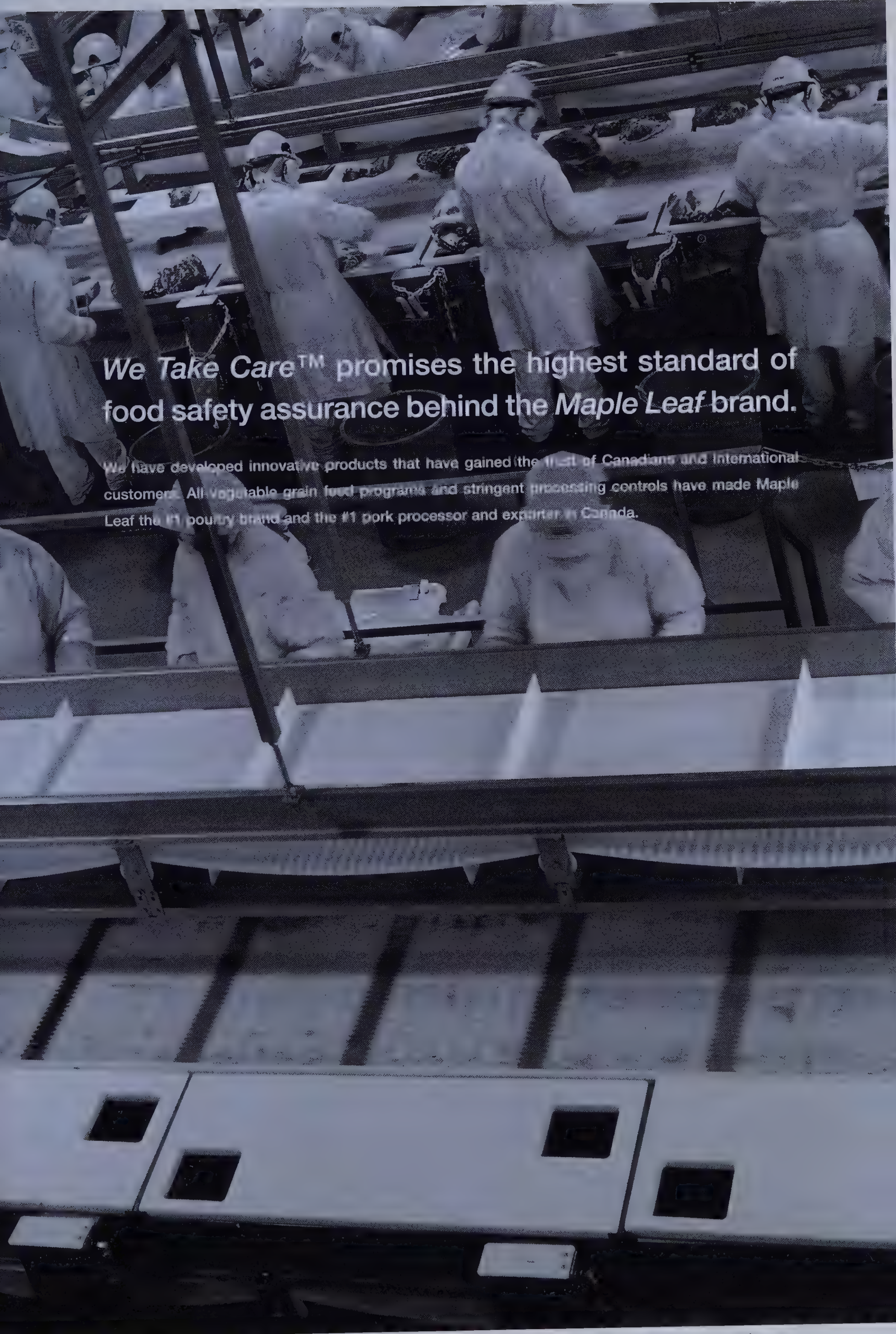
As owners and operators we are passionate about creating shareholder value, benefiting all stakeholders – that's the straight talk!

Michael H. McCain　　Richard A. Lan　　J. Scott McCain

Thomas P. Muir　　Michael H. Vels



The next generation of premium value-added pork products



We Take Care™ promises the highest standard of food safety assurance behind the *Maple Leaf* brand.

We have developed innovative products that have gained the trust of Canadians and international customers. All vegetable grain food programs and stringent processing controls have made Maple Leaf the #1 poultry brand and the #1 pork processor and exporter in Canada.

Transforming the Industry

Through innovation and unwavering focus, we are meeting consumer needs.

Individual Leadership

It is gratifying to work for a company that believes in individual leadership. We are eliminating the barriers, encouraging people to explore their potential, and lead the way to higher performance.

Meeting Consumer Needs

Our business is all about improving products and bringing new ones to market. We have taken the Canadian market by storm with *Maple Leaf Fully Cooked Roasts™*, a new line of products that is satisfying consumers' appetite for high quality, tasty, nutritious, and easy-to-prepare dinners.

Focus on Diversification

Global market diversification is a big focus for Maple Leaf Foods: Japan is our largest customer for premium chilled pork products, and because of our quality reputation, Mexico is now our fastest growing international customer.

Innovative Products

We were the first to innovate and brand premium poultry products. When consumers want the best they reach for *Maple Leaf Prime Naturally™*, Canada's leading brand of chicken.

David Harman
Senior Manager, Human Resources
Maple Leaf Pork

Denise DeSouza
Account Manager
Maple Leaf Poultry

Rachael Williams
New Product Development Specialist
Maple Leaf Consumer Foods Research

Jorge Cortés
Trader, Latin American Meats Group
Maple Leaf Foods International

We're ahead of the curve.

Faced with issues that rank high on the public radar screen such as food safety, obesity, nutrition and animal health, the food industry is under intense scrutiny. Maple Leaf predicted several years ago that consumer confidence would increasingly drive purchase decisions. As early as 2001, we made investments in technology and product innovation that have given Maple Leaf a significant lead and competitive advantage. The food safety commitment behind our Maple Leaf *We Take Care*™ brand promise has become the common thread driving new product introductions and continuous improvement in all our plants. Moving along the value continuum requires ongoing innovation and improved customer service. We hit the mark when we launched our line of *Maple Leaf Fully Cooked Roasts*™ across Canada. Ready in just 10 minutes, this product line satisfies a rapidly growing market for more wholesome, nutritious, and easy to prepare foods. *Maple Leaf Prime Naturally*™ poultry and *Maple Leaf Medallion Naturally*™ pork, are achieving double-digit growth in Canada, proof that consumers are willing to pay more for premium quality. Produced from livestock fed an all-vegetable grain diet containing no animal by-products, these successful brands are meeting consumer needs for an increased level of product confidence.

Developing premium brands is just part of profitable growth. Our mantra at Maple Leaf Pork is "*...to the Right!*" and everything we do is aimed at building profitability by moving our products and customer base along the value-curve. In 2003, we strengthened our customer relationships by continuing to move from a pork trading operation to a customer-focused organization. Dedicated account managers are building direct client relationships and our operations are customizing products to meet customer specifications. Through our Protein Value Chain, with customized feed programs and controlled processing environments, we can provide an additional level of quality assurance. Supported by Canada's reputation as the best environment to produce pork, Maple Leaf Foods International is leveraging these points of difference, and launching a major campaign to build global market share for the "Made in Canada" brand. We have invested in strengthening our assets and have built a performance driven culture. Our strategies are working: Maple Leaf Foods provides the highest standard of value-added meat products in the world.

Quality meat products start with quality feed.

Maple Leaf Foods has raised the bar on food safety and quality assurance with DNA traceability that can track pork products from the consumer to the farm of origin.


We are #1 in animal nutrition and hog production in Canada

Research and Discovery

Canada has set a gold standard for developing high quality animal nutrition programs and Maple Leaf is the country's leading supplier.

Food Safety

We are making remarkable progress with animal and food safety. At the farm level, tight bio-security prevents cross contamination and all MLF hog producers certified under the Canadian Quality Assurance program follow stringent requirements to document nutritional and medical care.

Raising the Bar

We have adopted global best practice and pioneered the next generation of food safety technologies.

Market Development

From fuel sources to fertilizer, we are finding new uses for animal by-products that are environmentally sustainable.

Shelley Morin
Ontario Sales Manager
Rothsay

Phil Dykstra
Director of Operations
Elite Swine

Dr. John Brennan, Ph.D.
Director, Maple Leaf Foods Agresearch
Shur-Gain

Research teams specializing in swine, dairy and beef cattle, poultry, and aquaculture nutrition develop feed programs that improve animal health and performance, and ultimately produce the highest quality food products.

Supported by our 30 feed operations, we service the swine, dairy and beef cattle, poultry and aquaculture industries. During the past three years, we have invested heavily in securing our leadership position. Our new mills in Ontario, Manitoba and New York State, and another under construction in New Brunswick, are state-of-the-art production facilities strategically located in the heart of livestock regions. With a renewed infrastructure in place, we are enhancing feed quality and operating efficiencies. Food safety relating to feed products is a highly publicized issue of critical importance to consumers. In response, we have installed automated controls at our new mills that vastly reduce the risk of cross contamination. Additionally, our rendering operations are segregating bovine material processing at designated plants to further reduce the potential for animal health issues.

Last year was a challenging time for the Canadian hog industry. Profits eroded due to low and volatile hog prices, exacerbated by an oversupply of domestic hogs, as well as U.S. farm subsidies and a high Canadian dollar. With 116,000 sows under management and roughly 28% ownership of the hogs we process, Maple Leaf was negatively impacted as well. Despite these challenges, we ended the year with all signs pointing towards recovery. We know that by working closely with our producer partners, we will regain Canada's competitive edge in hog production. One of our greatest opportunities is differentiating Canadian pork based on food safety leadership. Our recent development of a full-scale DNA based traceability program for pork, from farm of origin to the grocer's shelf, is an example of our industry leadership. This technology is the first of its kind anywhere in the world, and will provide Maple Leaf and Canada with a strong point of difference in international markets.

Canada Bread produces more than 650 million bagels a year, making us the largest producer in Canada and the U.K.

Reinventing one of the oldest crafts in the world with product innovations and wider distribution has made Canada Bread a leading bakery in Canada and #1 in the rapidly growing premium "par-baked" business in North America.


We're passionate about the bread business

Connecting with Markets

Bread – the ultimate comfort food. Nutritious, always delicious, and fresh to the very last slice.

Exceeding Customer Expectations

We keep in close touch with our customers and we are very proud of our ability to quickly bring them innovative new products that consistently exceed their quality expectations.

Spirit and Dedication

The spirit and dedication of people have made us the market leader in Canada with the *Dempster's* brand and number one in North America with par-baked frozen products.

Sylvain Vézina
Maison Cousin Plant Manager
Canada Bread Frozen Bakery

Alex Sum
Fraser Avenue Plant Manager
Canada Bread Fresh Bakery

Our mission is clear. To increase consumption of bread, rolls and bagels by creating more varieties and more premium products, while expanding distribution channels to make these products more widely available.

To achieve our mission, we have made great strides in laying the groundwork for streamlined, high-performance bakery operations. In 2003, we rationalized our distribution network and manufacturing facilities, closing four Canadian plants and investing capital to make our remaining bakeries run more efficiently. Other markets, such as the U.K., required capital expansion to satisfy a growing demand for high quality bagels and specialty bread products.

Our commitment to quality, innovation, and service has made Canada Bread the Canadian market leader. The *Dempster's*™ brand is number one in Canada, and innovations such as *Dempster's Stays Fresh to the Last Slice*™, packed in a CelloFoil™ bag and with double the shelf life of ordinary sliced bread, are rejuvenating a category once characterized by marginal market growth. New innovations also include *Dempster's Carb Wise*™ and *Healthy Way Carb Conscious*™ bread products, providing high nutritional value with reduced carbohydrates. Gourmet artisan breads produced by our Grace Bakery in California are attracting consumers with upscale tastes.

Throughout North America we rank number one in par-baked products. Nothing warms the hearts of retailers like consumers flocking around the aroma of freshly baked breads. Eliminating scratch baking is a significant time and cost saving for in-store bakery departments, and our value is not only supplying quality, ready-to-bake frozen products, but also training staff how to prepare and merchandise them. Canada Bread has a distinct advantage. We have the largest frozen bakery network in North America, and we are strategically located to supply all major markets. Par-baked is proving to be a runaway hit, yet we have barely scratched the surface in food service and in-store retail, and we anticipate continued double digit growth in this business over the next few years.

Financials

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Overview

The following is a discussion of the results of Maple Leaf Foods Inc. ("Maple Leaf Foods" or "the Company") for the year ended December 31, 2003.

Sales for the year of $5.0 billion were down 1% from $5.1 billion in 2002. Earnings from operations of $134.7 million decreased from $203.6 million last year. Included in earnings from operations in 2003 were restructuring costs of $17.7 million ($11.7 million after tax). Earnings from operations before these restructuring costs were $152.4 million. Net earnings of $35.1 million ($0.27 per share) were down from $84.7 million ($0.71 per share) last year. After excluding the impact of restructuring costs, net earnings for the year were $45.5 million ($0.36 per share), a decline of 46%.

The most prominent factor contributing to the year-over-year decline in earnings was an oversupply of protein in North American markets that persisted throughout 2003, abating somewhat towards the end of the year. This market condition had a pervasive, negative impact on the Company's Protein Value Chain operations, affecting hog production, pork and poultry margins and international sales. Protein Value Chain earnings from operations, before restructuring costs, declined $39.3 million (29%), from $133.6 million in 2002 to $94.3 million in 2003. Several other factors also contributed to the year-over-year decline, most particularly market conditions in Japan and the rapid rise in the Canadian dollar during the year. On the positive side, significant progress was made in growing value-added pork and poultry sales with highly successful launches of innovative new products. Bakery Products Group earnings from operations, before restructuring costs, declined 17% to $58.1 million in 2003 from $70.0 million the previous year, as earnings were affected by a labour dispute at a bakery distribution centre and costs associated with integration of bakery operations in Atlantic Canada.

The following is a comparative analysis of earnings from operations before restructuring costs. Although not a GAAP defined measure, management of the Company believes this is the most appropriate basis on which to evaluate operating results, as restructuring costs are not representative of ongoing operations.

($ millions)	2003	2002	Change
Meat Products Group	$ 12.7	$ 66.8	(81)%
Agribusiness Group	81.6	66.8	22 %
Protein Value Chain	94.3	133.6	(29)%
Bakery Products Group	58.1	70.0	(17)%
Operating Earnings before Restructuring Costs	$ 152.4	$ 203.6	(25)%

Pension Plan Wind-up: As discussed in the Company's 2002 Management's Discussion and Analysis, in the fourth quarter of 2002 the Company reached a surplus sharing agreement with the beneficiaries of a defined benefit pension plan for hourly employees. Related to the wind-up of the pension plan, the Company recorded an $8.6 million pre-tax gain ($5.5 million after tax) in the fourth quarter of 2002, and further pre-tax gains totalling $9.5 million ($6.2 million after tax) in 2003 as liabilities were settled. The gains are included in the results for the Meat Products Group. The Company received cash of $27.3 million in the fourth quarter of 2003 upon substantial completion of the plan wind-up.

Other Income (Expense): For the year, other expense of $1.4 million compared to $5.4 million of other income last year. This change relates primarily to gains on sales of real estate properties in 2002 that did not reoccur in 2003. In addition, $1.8 million in transaction costs related to the purchase of Maple Leaf Foods bakery assets by Canada Bread were expensed through earnings (2002: $3.4 million). Further details are provided in Note 14 to the Consolidated Financial Statements.

Net Interest Expense: For 2003, net interest expense was $68.4 million compared to $56.3 million last year, primarily as a result of higher average debt levels and interest rates. The Company's average effective cost of borrowing including interest rate hedges for 2003 was 7.2% (2002: 6.7%). At the end of 2002, the Company issued US$200 million of debt in a private placement, repayable in five and seven year tranches. This debt bears interest rates that are higher than the debt that it replaced. In addition, later in 2003, the Company renegotiated the terms of its principal bank facility, resulting in a slightly higher interest cost due to market interest rate changes (see Note 7 to the Consolidated Financial Statements).

Income Taxes: The Company's effective tax rate was 35.2% in 2003 (2002: 36.0%). The Company's tax rate is discussed in Note 16 to the Consolidated Financial Statements.

Restructuring Costs

During the year, the Company recorded $17.7 million in restructuring costs ($11.7 million after tax). Of this amount, $7.4 million in the first quarter related primarily to the closing of a London, Ontario bakery and transfer of its production to other bakeries, increasing system capacity utilization and efficiencies due to higher throughput and lower fixed costs. In the fourth quarter, $10.3 million related to two principal decisions: the proposed closure of three feed mills in Atlantic Canada and final reorganization of meat processing operations in Moncton, New Brunswick.

The Company reflects these costs as a separate component of operating earnings and discusses the results of operations before incurrence of these costs as they are not representative of ongoing underlying operations.

Revised accounting rules issued during 2003 limit the quantum of costs that can be accrued to liabilities actually incurred in the period. As a result, restructuring costs associated with a single decision may now be required to be expensed in several periods. For example, decommissioning expenses related to the three feed mills will be expensed in a future period, when the mills are closed. The effect of this will be a greater frequency of smaller restructuring costs being charged to earnings and reflected as restructuring costs.

Results of Operations

The operations in the Meat Products Group and the Agribusiness Group comprise the Company's Protein Value Chain operations, being the operations involved in producing animal protein products. These operations have a high degree of interaction between each other, and are strategically linked through the Company's Vertical Coordination business model. Under this model, while each operation adopts an external customer focus, they are tightly coordinated to deliver superior performance where their operations intersect. Accordingly, the following discussions of the Meat Products Group and the Agribusiness Group results should be read in conjunction with one another.

The sharp rise in the Canadian dollar negatively affected profitability within the Company's Protein Value Chain operations in 2003, as the Canadian dollar appreciated by 17%. On a medium-term basis, the Company has the ability to pass on price changes and realign its costs in response to currency fluctuations. However, with such a sharp and significant short-term rise in currency value, it takes longer to realize the benefit of reduced supply costs for goods purchased in U.S. dollars, compared to the immediate reduction in revenues of certain products, which are directly linked to U.S. dollars. For the full year, management estimates the negative impact of the rapid rise in the Canadian dollar on earnings from operations within the Company's Protein Value Chain operations was approximately $25 million compared to 2002, more than half of which was in the fourth quarter.

Meat Products Group

Branded value-added prepared meat products; fresh, frozen and branded value-added pork products; fresh, frozen and branded value-added chicken and turkey products; and global food marketing, distribution and trading

Meat Products Group sales decreased 3% to $2.9 billion in 2003 from $3.0 billion in 2002, due primarily to weaker pork markets in 2003, which led to significant declines in the price of pork to Japan and North America and closure late in 2002 of a beef kill operation in Atlantic Canada. The number of hogs processed by the Company declined marginally (0.1%) to 6.3 million hogs in 2003. Earnings from operations, before restructuring costs, decreased 81% to $12.7 million compared to $66.8 million in 2002. Included in 2003 operating earnings was a gain from the wind-up of a pension plan (previously discussed) of $9.5 million ($8.6 million in 2002).

The North American pork industry was affected by weak global protein markets as a result of a significant oversupply of protein in North America that put pressure on hog prices and compressed processing margins, leading to an unusual combination of lower than historical profitability in both production and processing margins. Management estimates the negative impact of weakness in North American pork markets during 2003 on earnings from operations was approximately $20 million compared to 2002. The Company's sales are also significantly weighted toward exports to Japan, as compared to other North American processors. Market conditions in Japan, in addition to the oversupply of global proteins, put incremental pressure on export margins to that country. Although the Company has historically earned a high return on product sold into Japan, this was not the case in 2003, and was a compounding factor that contributed to the low Meat Products Group earnings. Management estimates the negative impact of weaker Japanese markets on the Company's earnings from operations was approximately $20 million compared to 2002. Export markets began to improve late in the year as the global protein surplus began to decrease.

Distribution of fresh pork products increased in retail and food service channels, which are more profitable than commodity trading outlets, and new distribution was achieved for the Company's *Maple Leaf Medallion Naturally*™ fresh pork products. Progress was made toward the goal of expansion to a second shift in Brandon, mostly in an ongoing process to gain environmental approvals. Timing of commencement of a second shift in the years ahead will be dependent on continued improvement in the mix of the Company's fresh pork sales in the marketplace.

For the first half of the year, fresh poultry margins were adversely impacted by the North American protein surplus which reduced prices for most protein products, including poultry. Market prices began to recover in the second half which, together with strong growth in branded *Maple Leaf Prime Naturally*™ fresh poultry, led to stronger margins in the second half of the year, and overall improved results for the full year.

Operating earnings in the Meat Products Group were adversely affected by operational restructuring in Atlantic Canada. Management estimates the negative impact of this restructuring on the Company's earnings from operations was approximately $9 million compared to 2002. Beginning in 2002, the Company has been rationalizing its operations in Atlantic Canada by exiting beef processing, consolidating primary pork processing into a single location and right-sizing the facility manning levels and layouts to the remaining production volumes. The restructuring is anticipated to be complete in the first quarter of 2004.

In 2003, a single case of BSE was discovered in Western Canada. The Company's processed meats operations were marginally adversely affected for a short time as Canadian consumers took advantage of temporarily lower beef prices and shifted consumption toward beef-based products. However, sales and margins improved as the year progressed due to strong wiener and bacon sales

and increased market penetration in the food service sector. In August, a line of five refrigerated pre-cooked roast products was launched which has surpassed expectations, and contributed strongly to earnings.

Early in 2004, the Company announced a global-first, meat traceback system based on "Nature's Bar Code", the DNA of the animal. The commercialization of this initiative will be piloted with pork products sold into Japan commencing in late 2004 and then made available in domestic and other international markets.

Agribusiness Group

Research, development and supply of quality livestock nutrition products and services; pet food; swine production; and animal by-products recycling

Agribusiness Group sales for the year declined 3% to $918.8 million compared to $943.9 million last year principally due to lower commodity prices, and the divestiture of a non-core operation in Atlantic Canada in the fourth quarter of 2002. Earnings from operations, before restructuring costs, increased 22% to $81.6 million from $66.8 million in 2002. Included in these earnings are gains from the sale of poultry quota of $11.8 million in 2003 (2002: $2.8 million). The Company sells poultry quota on an ongoing basis to poultry producers where it makes operational sense for the producer to own the quota and enter into a long-term supply agreement at fair value with the Company for feed and other products and services. Operating earnings were negatively impacted by significant losses in hog production operations but offset by improved earnings in the ancillary animal nutrition operations, including pet food, and rendering.

The Company's hog production operations were negatively impacted in 2003 as a result of the sharp rise in the Canadian dollar that immediately reduced producer revenues, as hog prices are directly linked to the U.S. dollar. Grain prices are also partly linked to the U.S. dollar, but these prices reduced more slowly than the reduction in hog prices. During the year, the Company increased its economic ownership in hogs to 28% of the hogs it slaughters, from 13% at the end of 2002. As a result, the Company has economic interest in the equivalent of 1.8 million hogs (2002: 0.8 million hogs). In addition to the immediate loss of revenues, Canadian hog producers are now at a competitive disadvantage to their counterparts in the United States. The Company worked extensively to develop plans to adjust to this "New Normal" level of the Canadian dollar and to address the competitive issues around feed costs in Canada for the Company and its producer partners. In response to this fundamental shift in hog profitability in Canada, Maple Leaf Foods has taken a leadership role in working with producers to reduce costs, continue to improve hog performance, differentiate Canadian pork through initiatives such as DNA traceability, and has re-aligned hog supply contracts where necessary to adjust to the new reality of a higher Canadian dollar.

The Company's rendering operations adapted quickly throughout the year to a rapidly changing industry model and heightened food safety concerns as a result of the BSE incidents in North America. Through segregating species by plant and developing alternative markets for products, business stability and earnings growth were achieved in 2003.

During 2003, the Company finalized plans to construct a world-class $15 million feed mill in Moncton, New Brunswick, with an annual capacity of 225,000 tonnes of premium quality feed. When the mill is commissioned, expected within 15 months, three existing mills in the region will be closed and production consolidated into the new mill. As the Company has started this process of mill consolidation, associated restructuring costs were recorded in the third quarter of 2003. Future decommissioning costs will be charged to earnings as incurred when existing mills are closed.

Bakery Products Group

Fresh, frozen and branded value-added bakery products, including frozen par-baked bakery products; and specialty pasta and sauces

Bakery Products Group sales increased 6% to $1.3 billion in 2003 from $1.2 billion in 2002 as volumes and sales increased across all major product lines, although the Canadian equivalent of U.S. denominated sales decreased due to the appreciation of the Canadian dollar. Earnings from operations, before restructuring costs, decreased $11.9 million (17%) to $58.1 million, compared with $70.0 million in 2002. The decline in earnings was primarily due to $7.4 million in costs associated with a labour dispute at a bakery distribution centre in Quebec, that was settled in September. Excluding these costs, the Bakery Products Group would have recorded a 6% decrease in earnings compared to last year. The balance of the earnings decline was primarily attributable to costs associated with integrating bakeries and distribution routes in Atlantic Canada, partly offset by stronger underlying earnings from ongoing operations.

Fresh product sales were driven by price increases and improvements in market share behind the success of innovations such as extended shelf life bread marketed under the *Dempster's Stays Fresh to the Last Slice*™ brand. Frozen product sales increased as new in-store bakery and food service business was secured in both the United States and Canada. Grace Baking Company, a recently acquired artisan bread company located in California, extended sales of its partially-baked artisan bread products into Canada and new U.S. national retail accounts. The Company's U.K. bakery operations experienced strong sales growth rates as bagel demand continues to grow in the U.K. The U.K. operations are operating very close to capacity and the Company is planning new capacity that will meet increasing customer demand and improve the quality of its product offerings.

Early in 2004, the Company announced the opening of a new par-baked line in its Roanoke, Virginia bakery built to service the needs of a major food service operator's locations in the Eastern United States.

Throughout the year, wheat prices, which directly affect the cost of flour, were volatile and increased towards the end of the year. The appreciation of the Canadian dollar had a positive effect on flour prices for Canadian-based operations, but did not completely offset the wheat price increase. In response, price increases were announced and reflected at almost all customers by the end of the year, limiting the effect of these increased costs on the Company's profitability. While flour costs have moderated somewhat, other factors such as energy, packaging materials and labour costs have also increased compared to last year, and although cost reduction initiatives can offset some of these impacts, the Company continues to pursue price increases in order to maintain acceptable gross margins.

During the first quarter, the Company recorded a $7.4 million restructuring cost related to the closure of its bakery in London, Ontario and other operational restructuring.

A significant consumer trend in the bakery industry is the growing popularity of "low-carb" diets, that emphasizes protein products at the expense of high carbohydrate items such as bread. The Company has not seen any material impacts on overall bread sales, but there has been a shift from traditional white bread toward higher value-added whole-grain breads, a trend that favours the Company's product mix. Notwithstanding this, to benefit from these dietary trends, the Company is launching new "low-carb" bread offerings for consumers who wish to make this dietary choice.

The Results of Operations discussion above contains management estimates of the impact of a number of factors on the Company's earnings from operations compared to 2002. While these estimates are based on underlying assumptions and calculations which management considers to be reasonable, different underlying assumptions and calculations could produce significantly different estimates.

Acquisitions

In 2002, Canada Bread acquired the remaining 40% of the shares of Ben's Limited in Atlantic Canada, to hold 100%.

In 2002, Canada Bread acquired Olafson's Baking Company Inc. ("Olafson's") of Delta, British Columbia. At December 31, 2003, consideration of $14.7 million had been paid. Additional consideration, up to a maximum of $7.0 million, may be payable depending on the attainment of certain financial targets. Olafson's specializes in the production of premium value-added bakery products.

In 2002, Maple Leaf Foods purchased Grace Baking Company ("Grace Bakery") of San Francisco, California, and subsequently sold it to Canada Bread, with the other operations in its Bakery Products Group. Grace Baking is a leading U.S. producer of premium fresh and frozen artisan bread products.

In July 2003, Canada Bread acquired Parisco Limited ("Parisco") of Richmond Hill, Ontario for $6.2 million. Parisco is a leading producer of Belgian style waffles.

Details of assets and liabilities acquired in these acquisitions are set out in Note 18 and Note 19 to the Consolidated Financial Statements.

Transactions with Canada Bread Company, Limited

On December 27, 2002, Canada Bread purchased all of Maple Leaf Foods' U.S. and U.K. bakery operations for $262.3 million, inclusive of debt of $10.7 million. Completing the integration of these organizations will enhance growth opportunities and transform Canada Bread from a Canadian baking company to a global baking company with significant capabilities across fresh, par-baked and artisan bread product lines. This transaction has been accounted for at book value, however, transaction costs of $1.8 million (2002: $3.4 million) were charged to earnings and have been included in other income (expense).

On January 28, 2003, the Company purchased four million shares from Canada Bread treasury at $26.50 per share in a private placement transaction. Proceeds to Canada Bread from the financing of $106.0 million were used to pay down debt owing by Canada Bread to Maple Leaf Foods.

During the year, the Company purchased 2,068,400 common shares of Canada Bread on the market at an average cost of $25.65 per share and a further 819,400 shares at $26.50 per share pursuant to several private agreements.

These share purchases, aggregating $180.8 million, increased Maple Leaf Foods' ownership of Canada Bread from 68.3% to 84.7%. The preliminary allocation of the purchase cost has created $43.8 million in goodwill. The Company has no plans or intentions to make an offer for all of the remaining outstanding shares; however, additional shares may be purchased depending on market conditions.

Schneider Corporation Acquisition

In September 2003, the Company signed an agreement to acquire Schneider Corporation ("Schneiders"), a Canadian leader in the branded premium processed meats and grocery products market, for US$378 million. For the year ended April 27, 2003, Schneiders had sales of $1.24 billion and earnings from operations of approximately $54 million. It employs approximately 5,000 people at 20 facilities across Canada. The transaction requires Canadian Competition Bureau clearance in order to close. The Company anticipates the Competition Bureau review to be completed and the transaction to close by the end of March 2004. If the transaction

does not close, the Company may be required to pay $10 million to the vendor. The acquisition of Schneiders would transform the Meat Products Group as it significantly increases the mix of value-added products, resulting in higher margins and more predictable cash flow and earnings. The two companies have highly complementary businesses and brands that provide for significant growth opportunities for the combined operation, as well as synergies as overlapping functions are combined (see Note 22 to the Consolidated Financial Statements).

Cash Flows

Cash flow from operations for the year of $74.9 million compared to $195.8 million last year. The major positive components of cash flow from operations were net earnings of $35.1 million and proceeds from a pension plan wind-up of $27.3 million. The major use of cash flow from operations was an increase in working capital of $55.6 million. Non-cash items impacting cash flow from operations were depreciation of $100.9 million offset by an increase in the pension asset of $29.5 million. The pension plan wind-up is discussed above and in Note 17 to the Consolidated Financial Statements. The Company operates several defined contribution and defined benefit pension plans. Most of these plans are in a surplus position that requires the Company to reduce or eliminate Company contributions to the plan. These plan surpluses also give rise to non-cash pension income, which is reflected as a deduction from operating cash flow. Working capital investment increased by $55.6 million due to higher commodity prices, changes in the relative amounts sold under the Company's accounts receivable securitization programs, lengthening terms on agribusiness accounts receivable and lower accruals for taxes payable compared to last year.

Capital expenditures for the year of $132.6 million compared to $92.2 million last year. The Company owns or leases approximately 100 manufacturing facilities, and a supporting network of distribution facilities and offices. These facilities require a minimum level of maintenance spending to keep them in appropriate condition, and the Company also has a strategy of continued reinvestment in technology and processes in these facilities that ensures competitiveness and reduces the cost of production. Over time, management estimates that the current level of facilities would require approximately $60 million to $80 million of annual maintenance and investment capital. In addition to this, the Company will further invest in incremental production capacity where warranted. During 2003, the Company invested $45 million in incremental production capacity and process improvement projects and $14 million related to environmental air and water quality investments in the rendering business. Management anticipates that future capital expenditure needs can be funded by internally generated cash.

Capital Resources and Liquidity

The food industry segments that the Company operates in are generally characterized by high sales volumes and rapid turnover of inventories and accounts receivable. An exception to this is the agribusiness segment where credit granted to agricultural customers can have longer collection terms that are matched to crop and livestock cycles. In general, however, accounts receivable and inventory are readily convertible into cash. Investment in working capital is also affected by fluctuations in the prices of raw materials, seasonal and other market-related fluctuations. For example, although an increase or decrease in pork commodity prices may not affect pork processing margins, they can have a material effect on investment in working capital, primarily inventory and accounts receivable.

Due to its diversity of operations, the Company has in the past consistently generated a strong base level of operating cash flow, even in periods of higher commodity prices, or in years such as 2003, when industry conditions put pressure on operating margins in the protein business. These operating cash flows provide a base of underlying liquidity which the Company supplements with credit facilities to provide both longer term funding and to finance fluctuations in working capital.

The Company's strategy related to liquidity is to diversify its credit facilities to reduce reliance upon any single source of credit and spread debt maturities over time to reduce refinancing risk. In order to ensure continued access to competitively priced credit, the Company's policy is to maintain selected credit ratios and leverage at levels that provide access to investment grade credit. Based on this credit profile, Management does not foresee any material fluctuations in the availability of capital resources to the Company.

During the year, the Company renegotiated its principal short-term bank facility. The original facility was an amortizing facility with a final maturity date of 2008. The new credit facility has a higher principal, and is due in full on October 3, 2005. The result of the renegotiation was to increase the amount of liquidity available to the Company in 2004 and 2005, and the increased principal amount will finance a part of the purchase price of the Schneiders acquisition (see Note 22 to the Consolidated Financial Statements).

Taking into account the 2003 refinancing of its credit facilities, but excluding the financing related to Schneiders discussed below, the Company at December 31, 2003, had aggregate credit facilities, including subsidiary debt, of $1,269 million, of which $799 million was utilized (including $63 million in respect of letters of credit). Subsidiary debt facilities available amounted to $134 million, of which $110 million was utilized (including $7 million in respect of letters of credit) at year end.

To access competitively priced financing, and to further diversify its funding sources, the Company operates several accounts receivable financing programs. Under these programs, the Company has sold, with limited recourse, certain of its trade accounts receivable to financial institutions. At the year end, the Company had $187 million (2002: $195 million) outstanding under these facilities.

In 1999, the Company entered into agreements, including a conditional sales agreement ("CSA"), to finance $130 million of the construction cost of a new hog processing facility in Brandon, Manitoba. The Company is required to make quarterly payments under the terms of the agreement and, at maturity in October 2006, can elect to purchase the facility for $78 million. At December 31, 2003, the Company had outstanding commitments of $114 million related to these agreements. Recently announced changes to Canadian accounting standards would require the re-characterization of this arrangement. Therefore, the Company anticipates that it will include the Brandon asset and a related liability on its balance sheet effective January 1, 2005, the date that the new rules are expected to be effective. Management does not anticipate that this new basis of accounting will have any material effect on the Company's liquidity, credit quality or interest costs.

As explained in Note 22 to the Consolidated Financial Statements, the Company has committed to purchase the shares of Schneiders for US$378 million. The Company will initially fund the acquisition price by using a combination of its existing unused credit facilities, a new $300 million short-term bank facility and existing debt of Schneiders. Shortly after the acquisition of Schneiders, management will assess the impact of the acquisition on the Company's credit ratios, taking into account both recent earnings and the Schneiders contribution to cash flows, and will put in place a combination of new long-term debt and equity financing, sufficient to ensure that the Company maintains debt ratios that provide access to investment grade debt financing. To reduce liquidity risk, and to help secure competitively priced financing, the Company entered into an agreement with Ontario Teachers' Pension Plan Board ("OTPPB"), a 38% shareholder of the Company, that allows the Company, at its option, to issue treasury shares to OTPPB up to a maximum of $150 million at any time within 12 months of closing of the transaction. Pricing of shares under this agreement would be at a 6% discount to the market trading price of the Company's common shares prior to issue. The Company is not required to exercise the option and management does not intend to do so if competitively priced financing can be obtained in the equity market.

The Company has $91.3 million of 6% convertible debentures outstanding at December 31, 2003. These debentures mature on December 31, 2005. The Company has the option to satisfy payment of principal and interest by the issuance of shares and accordingly the debentures are required to be treated as equity for accounting purposes. Recent changes in Canadian accounting standards will require these convertible debentures currently classified as equity (see Note 11 to the Consolidated Financial Statements) to be reclassified as a liability effective January 1, 2005.

Management is of the opinion that its cash flow and sources of financing provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program. Additional details concerning financing are set out in Note 7 to the Consolidated Financial Statements.

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2003.

		Payments due by fiscal year					
(millions)	Total	2004	2005	2006	2007	2008	After 2008
Long-term debt	$ 735.6	$ 5.0	$ 232.5	$ 2.9	$ 82.3	$ 2.4	$ 410.5
Cross-currency swaps related to long-term debt	28.7	—	—	—	13.8	—	14.9
Lease obligations	88.5	31.1	21.2	14.2	8.5	6.9	6.6
Brandon CSA	113.8	13.0	13.0	87.8	—	—	—
Total contractual obligations	$ 966.6	$ 49.1	$ 266.7	$ 104.9	$ 104.6	$ 9.3	$ 432.06

Derivatives

As part of its business, the Company is exposed to market risks from changes in interest and foreign exchange rates and commodity prices (including wheat, feed grains and livestock). When considered appropriate, these exposures may be managed by the use of derivative financial instruments, including interest rate swaps, currency contracts, commodity futures and options. Information on the Company's material year-end derivative hedge positions is set out in Note 8 to the Consolidated Financial Statements.

Management hedges commodities and foreign exchange exposure when it determines that conditions are appropriate to mitigate risks and reduce the risk of loss from adverse changes in commodity prices or exchange rates. The Company attempts to closely match commodity contract terms with the underlying hedged exposure, and continually measures the effectiveness of the hedge in place.

The Company either enters into interest rate swaps or has negotiated fixed interest rates on credit facilities such that the interest payment on a relatively high percentage of its outstanding debt is not exposed to fluctuations in interest rates. At December 31, 2003, 72% (2002: 76%) of the Company's exposure to interest rate fluctuations was hedged or fixed.

All hedging and derivative activity is in accordance with risk management policies that specify both the type of allowed derivatives, maximum trading exposures and the definition of allowable hedge activity. Counterparty risk is monitored and controlled carefully, and no derivative instruments may be entered into with a counterparty whose public credit rating is less than A credit quality.

During 2003, there were no material derivative gains or losses related to ineffectiveness of hedges and no material hedges were discontinued in 2003 as a result of it becoming probable that a forecasted transaction would not occur.

The Company generally holds derivative contracts to maturity, as they are matched with the underlying commodity, interest rate or foreign exchange exposure. The financial impact, should the Company terminate and settle these arrangements, is disclosed in Note 8 to the Consolidated Financial Statements. There are no other obligations or liabilities under these arrangements that may require further funding by the Company.

As noted above, during 2003, the Company entered into an agreement to purchase the shares of Schneiders. The purchase price is denominated in U.S. dollars. At December 31, 2003, the Company had hedged the foreign exchange risk on $290 million of the US$378 million purchase price, resulting in a total purchase price of Cdn$498 million based on the exchange rate at December 31, 2003. Should the transaction not close as planned, the difference between the hedged exchange rate and the then market rate would be recognized immediately in earnings at that time, and the derivative position marked to market in each period that it remained outstanding. Further details related to derivative transactions are set out in Note 8 to the Consolidated Financial Statements.

Risk Factors

The Company operates in the food processing and agricultural sectors, and is therefore subject to risks and uncertainties related to these businesses that may have adverse effects on the Company's results of operations and financial position.

Food Safety and Consumer Health Risk: The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage or contamination, consumer product liability, and the potential costs and disruptions of a product recall. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems. The Company's facilities are subject to audit by federal health agencies in Canada and similar institutions outside of Canada, and performs its own audits to ensure compliance with its internal standards, which are generally at or higher than regulatory agency standards. However, the Company cannot guarantee that compliance with procedures and regulations will necessarily mitigate the risks related to food safety.

Livestock Risk: The Company is subject to risks related to health status of livestock both within and outside its Protein Value Chain. Livestock health problems could adversely affect production, supply of raw material to manufacturing facilities and consumer confidence. The Company monitors herd health status on a daily basis and has strict bio-security procedures and employee training programs throughout its hog production system. However, not all livestock procured by the Company may be subject to these processes, as hog and poultry livestock is also purchased from independent third parties, and the Company cannot guarantee that an outbreak of animal disease in Canada will not have a material adverse effect on the Company's financial statements.

Maple Leaf Foods has developed a comprehensive internal contingency plan for dealing with animal disease occurrences, and has taken steps to encourage the Canadian government to enhance both the country's prevention measures and preparedness plans.

Credit Risk: The Company sells products, primarily feed and services, to the agricultural industry, and provides credit to customers in this sector. Terms of sale vary from relatively short credit terms to extended terms designed to match livestock marketing cycles. As the Company's customers are exposed to market and other risk, credit provided in this segment has a higher degree of risk. The Company carefully monitors the level of credit made available to individual customers, and registers security where possible, but cannot completely eliminate the risk of extended credit to agricultural customers.

Foreign Currencies: A significant amount of the Company's revenues and costs are either denominated in or directly linked to other currencies (primarily U.S. dollars and Japanese Yen). Due to the diversity of the Company's operations, normal fluctuations in these other currencies have relatively small impacts on the Company's profitability due to (a) "natural hedges", or offsetting currency exposures, for example when revenues and costs are both linked to other currencies or (b) an ability to change prices of its products to offset adverse currency movements. Usually, therefore, currency fluctuations would not be considered a material risk to the Company. However, in 2003, the Canadian dollar appreciated rapidly and materially against the U.S. dollar. As a result, revenues linked to U.S. dollars were immediately reduced while the Company's ability to change prices or realize on natural hedges lagged the immediate currency changes. The effect of this sudden change in exchange rates therefore had an unusually large impact on the Company's earnings, estimated by management to be approximately $25 million for the year. This impact is expected to reduce going forward as natural hedges are realized, prices are increased, or, where possible or necessary, costs reduced.

International Trade: The Company exports significant amounts of its products outside of Canada, and certain of its product lines are affected by global commodity prices. As such, the Company can be affected, both positively and adversely, by international events that affect the price of food commodities, or affect the free flow of food products between countries. Examples of such events are animal disease in other countries, trade actions and tariffs on food products, and government subsidies of competing agricultural products. This was the case, for example, when an outbreak of Bovine Spongiform Encephalopathy ("BSE") in the U.K. and an outbreak of foot and mouth disease in Europe disrupted international trading patterns leading to the imposition of safeguard duties in Japan.

Change in Accounting Policies

(a) Stock-Based Compensation

The Company elected to adopt the fair value method of accounting for stock option awards prospectively as of January 1, 2003. In 2003, the Company granted 2,742,000 stock options at a weighted average price of $10.34 per share. The fair value of these options using the Black-Scholes option pricing model is $5.8 million. This fair value is amortized to income over the vesting period and accordingly, in 2003, the Company charged $0.8 million to earnings.

(b) Restructuring Costs

The Company has applied the new accounting standards related to accounting for restructuring plans initiated after March 31, 2003 as required by the CICA. These new standards allow recognition of a liability for an exit or disposal activity only when the liability is incurred and can be measured at fair value. Restructuring costs of $10.3 million recognized in the third quarter were recorded in accordance with these new rules. Previously, a commitment to an exit plan was sufficient to record a majority of the costs. Under the old rules, restructuring charges for an event would typically be recognized in the same accounting period in which a restructuring plan had been committed to. Management anticipates that in the future the effect of the new rules will be more frequent restructuring costs as a single restructuring plan may be reflected in earnings over a number of periods as the related liabilities are incurred.

(c) Hedging Relationships

New accounting rules for hedging relationships became effective on January 1, 2004. These guidelines established new criteria for what transactions qualify as hedging relationships. To qualify for hedge accounting, the hedging relationship must be appropriately documented at inception and there must be reasonable assurance, both at inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company formally documented and reassessed all hedging relationships to determine if the new criteria were met on December 31, 2003. All of the hedging instruments and relationships used by the Company at December 31, 2003 were determined to meet the criteria relative to hedge effectiveness, and these were the same types of instruments used, and hedging relationships identified, throughout 2003.

To the extent that a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(d) Accounting for Asset Retirement Obligations

Starting in 2004, new accounting rules require companies to record the fair value of an asset retirement obligation on the balance sheet as a liability (and corresponding asset) in the period in which the company incurs a legal obligation associated with the retirement of a long-lived asset. The resulting asset will be amortized through earnings over the life of the asset. The Company is assessing the impact of this standard.

(e) Consolidation of Variable Interest Entities

As described in Note 2(m) to the Consolidated Financial Statements, the CICA has issued new rules relating to consolidation of "Variable Interest Entities". The new guidelines address the consolidation of variable interest entities, which are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The guideline also provides guidance for determining who, if anyone, should consolidate the variable interest entity. The Company's hog processing facility in Brandon (as described in Note 20(a) to the Consolidated Financial Statements) which is currently accounted for as an operating lease, will be required to be recorded as an asset of the Company together with its related obligations, effective January 1, 2005.

(f) Financial Instruments

In January 2004, Canadian accounting rules changed to require obligations that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Thus securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or in the equivalent value of its own equity instruments are no longer required to be presented as equity. This change will require the Company's convertible debentures currently classified as equity (see Note 11 to the Consolidated Financial Statements) to be reclassified as a liability, effective January 1, 2005.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions. The estimates and assumptions are based on the Company's experience combined with management's understanding of current facts and circumstances. These estimates may differ from actual results, and certain estimates are considered critical as they are both important to reflect the Company's financial position and results of operations and require significant or complex judgement on the part of management. The following is a summary of certain accounting estimates or policies considered critical by the management of the Company.

(a) Goodwill

Goodwill is tested for impairment annually and as part of this test the Company assesses the value of goodwill of its various reporting units. The Company's goodwill was tested in the second quarter of 2003 and no impairment in the value had occurred.

(b) Accounts Receivable

The Company provides for individual non-collectible or doubtful accounts, plus a general reserve calculated as a percent of certain outstanding accounts receivable. At December 31, 2003, $11 million (2002: $9 million) was reserved against accounts receivable. Estimation of recoverable amounts is based on management's best estimate of a customer's ability to settle its obligations, and actual amounts received may be affected by various factors, including industry conditions and changes in individual customer financial condition.

(c) Trade Merchandise Allowances

The Company provides for estimated payments to customers based on various trade programs and contracts, that includes payments upon attainment of certain sales volumes.

(d) Employee Benefit Plans

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance (7.5%), salary escalation (4%), retirement ages of employees and expected health care costs. Discount rates (6%) used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities.

The effect on the Company's 2003 earnings of a decrease in selected assumptions, assuming no change in benefit levels, is as follows:

Assumption	Percentage Point Decrease	Higher 2003 expense (millions)
Discount rate	0.50%	$ 2.9
Expected return on assets	0.50%	$ 3.5

Environment

Maple Leaf Foods is conscious of its environmental responsibilities. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitment" that is approved by the Board of Directors' Environment, Health and Safety Committee. The Company's environmental program is monitored on a regular basis by the Committee, including compliance with regulatory requirements, the use of internal environmental specialists and independent, external environmental analyses. The Company continues to invest in environmental infrastructure related to water, waste and air emissions to ensure that environmental standards continue to be met or exceeded, while implementing procedures to minimize the impact of operations on the environment. Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company.

Quarterly Financial Information

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2003 and 2002 (millions of dollars except share amounts).

2003	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
Sales	$ 1,251.5	$ 1,264.0	$ 1,253.0	$ 1,273.4	$ 5,041.9
Net earnings	6.0	1.8	0.3	27.0	35.1
Net earnings per share (basic and diluted)	$ 0.04	$ 0.01	$ (0.01)	$ 0.23	$ 0.27
Net earnings before restructuring costs	$ 9.5	$ 1.8	$ 7.2	$ 27.0	$ 45.5
Net earnings per share before restructuring costs	$ 0.07	$ 0.01	$ 0.05	$ 0.23	$ 0.36
Cash flow from operations [1]	$ (67.0)	$ 1.9	$ 30.5	$ 109.5	$ 74.9

2002	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
Sales	$ 1,223.2	$ 1,279.6	$ 1,268.7	$ 1,304.4	$ 5,075.9
Net earnings	16.9	22.6	19.3	25.9	84.7
Net earnings per share	$ 0.14	$ 0.19	$ 0.16	$ 0.22	$ 0.71
Cash flow from operations	$ (7.4)	$ 78.9	$ 37.9	$ 86.4	$ 195.8

[1] Quarterly amounts have been changed where required to conform with full year presentation of cash flows.

Management's Statement of Responsibility

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which involve the use of judgement and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls, which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial statements. Their opinion is based upon audits conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.

February 18, 2004

T. Muir

M.H. McCain
President and Chief Executive Officer

T.P. Muir
Chief Financial Officer

M.H. Vels
Executive Vice President, Finance

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Maple Leaf Foods Inc. as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 24, 2004

As at December 31

(in thousands of Canadian dollars)	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 38,908	$ 156,866
Accounts receivable (Note 3)	242,306	243,121
Inventories (Note 4)	259,758	266,889
Future tax asset – current (Note 16)	4,854	5,847
Prepaid expenses and other assets	9,355	8,959
	555,181	681,682
Investments in associated companies	58,189	59,497
Property and equipment (Note 5)	802,332	785,425
Other long-term assets (Note 6)	171,262	159,910
Future tax asset – non-current (Note 16)	29,906	21,733
Goodwill and other intangibles	531,851	481,000
	$ 2,148,721	$ 2,189,247
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued charges	$ 501,997	$ 532,132
Income and other taxes payable	12,212	42,283
Current portion of long-term debt (Note 7)	4,959	22,588
	519,168	597,003
Long-term debt (Note 7)	730,627	713,689
Future tax liability (Note 16)	50,397	46,453
Other long-term liabilities	35,274	6,981
Minority interest	70,068	93,220
Shareholders' equity (Note 10)	743,187	731,901
	$ 2,148,721	$ 2,189,247

Contingencies and commitments (Note 20 and Note 22)

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:

Michael H. McCain
Director

Robert W. Hiller
Director

Consolidated Statements of Earnings

Years ended December 31

(in thousands of Canadian dollars, except share amounts)	2003	2002
Sales	$ 5,041,896	$ 5,075,879
Earnings from operations before restructuring costs	$ 152,428	$ 203,550
Restructuring costs (Note 9)	(17,732)	—
Earnings from operations	134,696	203,550
Other income (expense) (Note 14)	(1,377)	5,355
Earnings before interest and income taxes	133,319	208,905
Interest expense (Note 15)	68,369	56,289
Earnings before income taxes	64,950	152,616
Income taxes (Note 16)	22,879	54,947
Earnings before minority interest	42,071	97,669
Minority interest	7,003	12,983
Net earnings	$ 35,068	$ 84,686
Basic and diluted earnings per share (Note 13)	$ 0.27	$ 0.71
Weighted average number of shares (millions)	113.1	112.5

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

Years ended December 31

(in thousands of Canadian dollars)	2003	2002
Retained earnings, beginning of year	$ 63,758	$ 1,817
Net earnings	35,068	84,686
Dividends declared ($0.16 per share; 2002: $0.16 per share)	(18,094)	(18,035)
Premium on repurchase of share capital (Note 10)	(899)	—
Convertible debenture charge (Note 11)	(4,851)	(4,710)
Retained earnings, end of year	$ 74,982	$ 63,758

See accompanying Notes to the Consolidated Financial Statements.

Years ended December 31 (in thousands of Canadian dollars)	2003	2002
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings	$ 35,068	$ 84,686
Add (deduct) items not affecting cash		
Depreciation	100,868	96,212
Stock-based compensation (Note 12)	849	—
Minority interest	7,003	12,983
Future income taxes	580	(8,215)
Increase in pension asset	(29,501)	(18,910)
Undistributed losses of associated companies	1,483	1,453
Loss (gain) on sale of property and equipment	142	(14)
Gain on sale of investments	(362)	(1,340)
Other	(8,943)	10,390
Change in other long-term receivables	(3,856)	17,560
Proceeds from pension plan wind-up	27,251	—
Change in non-cash operating working capital	(55,637)	1,014
	74,945	195,819
Financing activities		
Dividends paid	(18,094)	(18,035)
Dividends paid to minority interest	(1,663)	(2,770)
Decrease in long-term debt	(20,332)	(229,572)
Increase in long-term debt	69,338	312,563
Convertible debenture interest paid	(5,478)	(5,478)
Increase in share capital	3,118	8,079
Shares repurchased for cancellation (Note 10)	(1,829)	—
Other	1,858	819
	26,918	65,606
Investing activities		
Additions to property and equipment	(132,607)	(92,160)
Proceeds from sale of property and equipment	1,933	5,306
Purchase of Canada Bread shares (Note 18)	(74,831)	—
Purchase of net assets of businesses, net of cash acquired (Note 19)	(7,002)	(66,967)
Change in investments, net	(6,196)	(1,307)
Other	(1,118)	(2,042)
	(219,821)	(157,170)
Increase (decrease) in cash and cash equivalents	(117,958)	104,255
Cash and cash equivalents, beginning of year	156,866	52,611
Cash and cash equivalents, end of year	$ 38,908	$ 156,866
Supplemental cash flow information:		
Net interest paid	$ 66,611	$ 55,540
Net income taxes paid	53,566	54,567

See accompanying Notes to the Consolidated Financial Statements.

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of Canadian dollars, except share amounts)

1. THE COMPANY

Maple Leaf Foods Inc. ("Maple Leaf Foods" or the "Company") is a leading Canadian-based food processing company, serving wholesale, retail, food service, industrial and agricultural customers across North America and internationally. The Company's results are organized into three segments: Meat Products Group, Agribusiness Group and Bakery Products Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of the Company. The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimates.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and the Company's proportionate share of the assets, liabilities, revenue and expenses of joint ventures over which the Company exercises joint control. Investments in associated companies, over which the Company exercises significant influence, are accounted for by the equity method.

(b) Translation of foreign currencies

The accounts of foreign subsidiaries, associated companies and joint ventures are translated into Canadian dollars using the exchange rate in effect at the year end for assets and liabilities and the average exchange rates for the year for revenue and expenses. Exchange gains or losses on translation are deferred and included as a separate component in shareholders' equity until realized.

Where the Company enters into forward exchange contracts to hedge the principal and interest on related debt payable in foreign currencies, unrealized losses or gains on such contracts are matched with exchange gains or losses on the debt payable.

(c) Hedging arrangements

The Company enters into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The gains and losses on these hedging instruments are recognized in the consolidated financial statements in the same period as the item to which the hedged position relates. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively.

The Company designates certain of its U.S. dollar borrowings as a hedge of its net investment in its U.S.-based businesses. Any exchange gain or loss on such designated borrowings is offset against the unrealized exchange gain or loss arising on translation of the U.S. dollar financial statements of these businesses and is included in the unrealized foreign currency adjustment account in shareholders' equity.

(d) Revenue recognition

The Company recognizes revenues from product sales upon transfer of title to customers. Revenue is recorded at the invoice price for each product net of estimated returns and sales incentives provided to customers. Sales incentives include various rebate and promotional programs with the Company's customers, primarily rebates based on achievement of specified volume levels.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Included in the cost of inventory are direct product costs, direct labour and an allocation of variable and fixed manufacturing overhead including depreciation.

(f) Property and equipment

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period. Depreciation is calculated using the straight-line basis at the following rates, which are based on the expected useful lives of the assets:

Buildings	$2\frac{1}{2}$% to 6%
Machinery and equipment	10% to 33%

(g) Deferred financing costs

Costs incurred to obtain long-term debt financing are amortized over the term of such debt and are included in interest expense for the year.

(h) Goodwill and other intangibles

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. The Company assigns value to certain acquired identifiable intangible assets, primarily trademarks and delivery routes. Finite life intangibles are amortized over their useful lives. Goodwill is tested for impairment annually in the second quarter.

(i) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Accordingly, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date.

(j) Employee benefit plans

The Company accrues obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains and losses in excess of 10% of the greater of the actuarial liabilities and the market value of assets and all gains and losses due to changes in plan provisions are amortized on a straight-line basis over the expected average remaining service period of the active plan members. When a restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement.

(k) Stock-based compensation

The Company has stock option plans for employees. The Company has elected to apply the fair value method of accounting for its stock option awards, with effect from January 1, 2003, on a prospective basis. The Company has recognized a fair value expense in reported net earnings related to all stock options granted to employees in 2003.

For options issued prior to January 1, 2003, the Company has not recognized any stock-based compensation expense. The Company has disclosed the pro forma effect of accounting for stock option awards issued in 2002 under the fair value method (see Note 12).

(l) Statement of cash flows

Cash and cash equivalents are defined as cash and short-term securities with maturities less than 90 days at the date of acquisition, less bank indebtedness.

(m) Recently issued accounting pronouncements

(i) Hedging relationships

The CICA Accounting Guideline 13, "Hedging Relationships", establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2004. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company has formally documented and reassessed all hedging relationships and determined that the new criteria have been met. All hedging instruments and relationships used by the Company as at December 31, 2003 were determined to meet the new criteria relative to hedge effectiveness.

In the event that a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(ii) Accounting for asset retirement obligations

In March 2003, the CICA issued a new accounting standard, Section 3110, "Accounting for Asset Retirement Obligations". The new standard requires companies to record the fair value of an asset retirement obligation as a liability in the period in which they incur a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. Companies are also required to record a corresponding amount as an asset that is depreciated as a charge to earnings over the life of the asset. Companies are required to adopt Section 3110 for fiscal years beginning on January 1, 2004. The Company is assessing the impact of this new standard.

(iii) **Consolidation of variable interest entities**

In June 2003, the CICA issued a new Accounting Guideline AcG-15, "Consolidation of Variable Interest Entities". This Guideline addresses the consolidation of variable interest entities, which are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The Guideline also provides guidance for determining who, if anyone, should consolidate the variable interest entity. The Company's hog processing facility in Brandon (as described in Note 20(a)), which is currently recorded as an operating lease will be required to be recorded as an asset of the Company, with its related obligations, effective January 1, 2005. The Company is continuing to assess the impact of this new standard.

(n) Comparative figures

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2003.

3. ACCOUNTS RECEIVABLE

Under revolving securitization programs, the Company has sold, with limited recourse, certain of its trade accounts receivable to financial institutions. The Company retains servicing responsibilities and assumes limited recourse obligation for delinquent receivables. At December 31, 2003, trade accounts receivable amounting to $186.8 million (2002: $194.6 million) had been sold under these programs.

4. INVENTORIES

	2003	2002
Material held for production	$ 142,739	$ 130,840
Finished products	117,019	136,049
	$ 259,758	$ 266,889

5. PROPERTY AND EQUIPMENT

	2003	2002
Land	$ 73,124	$ 64,629
Buildings	358,525	335,435
Machinery and equipment	1,031,458	1,017,986
Construction in progress	72,731	18,769
Land held for development or sale	688	1,751
	1,536,526	1,438,570
Less accumulated depreciation	734,194	653,145
	$ 802,332	$ 785,425

6. OTHER LONG-TERM ASSETS

	2003	2002
Net pension asset (Note 17)	$ 156,831	$ 154,581
Notes and mortgages receivable	6,026	2,170
Deferred financing costs	4,816	3,159
Other	3,589	—
	$ 171,262	$ 159,910

7. LONG-TERM DEBT

	2003	2002
Term facility [a]	$ 152,000	$ 151,306
Notes payable, due 2009 (US$140 million) [b]	185,360	219,323
Notes payable, due 2007 (US$60 million) [b]	79,440	93,240
Notes payable, due 2010 [c]	214,300	225,775
Revolving term facilities – Canada Bread [d]	78,324	9,500
Other [e and f]	26,162	37,133
	735,586	736,277
Less current portion	4,959	22,588
	$ 730,627	$ 713,689

(a) In October 2003, the Company renegotiated its primary bank debt facility. The principal changes were an increase in the original size of the facility from $519.4 million to $635.0 million and the facility was converted to a revolving facility with a single maturity date of October 3, 2005.

This facility can be drawn in either Canadian or U.S. dollars and bears interest based on bankers' acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans.

As at December 31, 2003, $207.8 million (2002: $202.2 million) of the $635.0 million revolving facility was utilized, of which $55.8 million (2002: $50.9 million) was in respect of letters of credit and trade finance.

(b) In December 2002, the Company issued US$200 million of notes. The notes payable include a US$140 million tranche (Series C), bearing interest at 6.3% per annum and due in 2009, and a US$60 million tranche (Series D), bearing interest at 5.6% per annum and due in 2007. Through the use of cross-currency swaps (Note 8), the Company effectively converted US$75 million into Canadian dollar-denominated debt of $116.5 million bearing interest at floating interest rates being the three-month bankers' acceptance rate plus 2.5% per annum. The financial impact of currency changes in spot rates, on the swap are reported as other liabilities. At December 31, 2003, the swap liability was $17.2 million based on changes in spot rates.

(c) In April 2000, the Company issued $214.3 million of notes payable, due April 28, 2010. The notes payable include a Canadian dollar-denominated tranche (Series A) for Cdn$115.0 million, bearing interest at 7.7% per annum, and a U.S. dollar-denominated tranche (Series B) for US$75.0 million, bearing interest at 8.5% per annum. Through the use of cross-currency swaps (Note 8), the Company effectively converted the U.S. dollar tranche into Canadian dollar-denominated debt, resulting in a Canadian dollar-denominated amount of $110.8 million at an effective fixed interest rate of 7.7% per annum. The financial impact of currency changes in spot rates on the swap is reported as other liabilities. At December 31, 2003, the swap liability was $11.5 million based on changes in spot rates.

(d) In 2001, Canada Bread established a debt facility with a syndicate of banks to finance the acquisition of Multi-Marques Inc. and to provide liquidity for general corporate purposes. The current amount of the facility is $97.0 million and is structured as follows:

(i) A $77.0 million revolving, reducing term facility, maturing in 2005.

(ii) A committed four-year $20.0 million revolving term facility that matures in 2005.

These facilities can be drawn in either Canadian or U.S. dollars and bear interest based on bankers' acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans. As at December 31, 2003, $85.0 million (2002: $15.7 million) was utilized under this facility of which $6.7 million (2002: $6.2 million) was in respect of letters of credit.

(e) In October 1999, the Company issued $36.2 million in notes payable in partial consideration for the acquisition of The Landmark Group Inc. As at December 31, 2003, these notes had been fully repaid (2002: $8.6 million was outstanding).

(f) Subsidiaries of the Company have various lending facilities with interest rates ranging from non-interest bearing to 8.5% per annum. These facilities are repayable over various terms from 2004 to 2009. As at December 31, 2003, $24.5 million (2002: $28.5 million) was outstanding.

The Company's various facilities with Canadian chartered banks and other lenders, all of which are unsecured, are subject to certain financial covenants.

The Company's blended average effective cost of borrowing for 2003 was 7.2% (2002: 6.7%) after taking interest rate derivative instruments into account.

Required repayments of long-term debt are as follows:

2004	$ 4,959
2005	232,480
2006	2,860
2007	82,284
2008	2,431
Thereafter	410,572
	$ 735,586

8. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the ordinary course of business, the Company enters into derivative financial instruments to reduce underlying fair value and cash flow risks associated with foreign currency, interest rates and commodity prices.

Foreign currency risk management

The Company uses foreign currency forward contracts and options to manage a portion of its currency exposures. These currency exposures relate primarily to U.S. dollar and Japanese Yen denominated export sales and, to a much lesser extent, expenditures denominated in other foreign currencies. In addition, in connection with the planned U.S. dollar purchase of Schneider Corporation (see Note 22), the Company hedged US$290.0 million of the purchase price through the forward purchase of U.S. dollars as at

December 31, 2003. The following table summarizes the Company's net commitments to sell (buy) foreign currency under forward contracts at December 31, 2003:

2003	Currency	Notional currency amount	Average exchange rate	Maturity
		(000's)		
Sales contracts	US$	65,000	1.314	2004
Purchase contracts	US$	(290,000)	1.314	2004
Sales contracts	Yen ¥	3,160,637	0.012277	2004

Based on the exchange rate at December 31, 2003, the Company would have realized a net loss of $4.3 million (2002: a net loss of $1.7 million) to settle all its commitments under its outstanding foreign exchange forward contracts.

Interest rate risk management

The Company uses a variety of interest rate derivative instruments to manage a portion of its exposure to interest rate fluctuations as follows:

(i) Notional Cdn$370.0 million floating to fixed rate swap contracts with fixed rates that range from 5.5% to 7.9%. These swap contracts, which mature between 2005 and 2009, have a weighted average term to maturity of 3.7 years. These derivatives are cash flow hedges that effectively remove the impact of changes in short-term interest rates on the interest and lease payments for the Company's bank credit facilities, lease payments and accounts receivable securitization programs.

(ii) Notional US$75.0 million cross-currency fixed to fixed rate swap to fix the Canadian dollar equivalent of the principal and interest payments on the Series B notes (Note 7(c)). This swap effectively locks in a Canadian dollar equivalent $110.8 million principal amount on the notes and locks in a Canadian dollar denominated effective fixed interest rate of 7.7% on these notes for their entire term.

(iii) Notional US$75.0 million cross-currency fixed to floating rate swap to fix the Canadian dollar equivalent of the principal and interest payments, and convert the interest rate to a floating rate, on the Series D notes and a portion of the Series C notes (Note 7(b)). These swaps effectively lock in a Canadian dollar equivalent of $116.5 million principal amount on an aggregate US$75.0 million of these notes, and effectively convert that portion of the notes into floating rate debt at the three-month bankers' acceptance rate plus 2.5%. US$60.0 million of the swaps mature in 2007 and US$15.0 million in 2009.

Based on market values at December 31, 2003, the Company would have incurred a loss of $64.3 million (2002: $21.4 million) to terminate the above-noted interest rate derivative contracts. Market values were determined based on information received from the Company's counterparties to these contracts.

Commodity price risk management

The Company uses a variety of derivative instruments to manage its exposure to various commodity price fluctuations. Based on market values at December 31, 2003 the Company would have achieved a gain of $0.3 million (2002: $11.4 million loss) to terminate these contracts.

Fair value of financial assets and liabilities

Fair value of accounts receivable, accounts payable and accrued charges, and current portion of long-term debt approximates their carrying value due to their short-term nature.

The fair value of long-term indebtedness pursuant to the Company's facilities approximates its carrying value as it bears interest at floating rates.

9. RESTRUCTURING COSTS

During the year, the Company recorded $17.7 million of restructuring costs ($11.7 million, after tax). Of this amount, $7.4 million ($4.8 million, after tax) related to plant closures and operational restructuring in the Bakery Products Group. The remaining $10.3 million ($6.9 million, after tax) was in respect of plant closures and operational restructuring for several other businesses, primarily consolidation of feed mill operations in the Maritimes and reorganization of Atlantic Canada meat processing operations.

The following table details the composition of the restructuring costs:

	2003
Employee termination and related costs	$ 12,001
Facility exit costs	757
Other restructuring costs	988
	13,746
Asset impairment	3,986
	$ 17,732

The non-cash charge for asset impairment reflects the write-down of certain capital assets that were disposed of, or that have become impaired as a result of the restructuring.

Of the $13.7 million in provisions, $7.6 million was paid during 2003.

The Company expects to complete the major components of the restructuring plan by June 2005.

10. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2003	2002
Share capital	$ 565,048	$ 562,860
Convertible debentures (Note 11)	96,089	94,857
Retained earnings	74,982	63,758
Unrealized foreign currency adjustment	6,219	10,426
Contributed surplus	849	—
	$ 743,187	$ 731,901

The authorized share capital of Maple Leaf Foods consists of an unlimited number of common shares and 23,400,000 non-voting common shares, of which 22,000,000 are issued and outstanding as at December 31, 2003 and 2002. The non-voting common shares carry rights identical to those of the common shares, except that they have no voting rights other than as specified in the Canada Business Corporations Act. Each non-voting common share is convertible at any time into one common share at the option of the holder. Holders of non-voting common shares have a separate class vote on any amendment to the articles of the Company, if the non-voting common shares would be affected by such amendment in a manner which is different from the holders of common shares.

Details of share transactions relating to both voting and non-voting shares during the year are as follows:

	Number of shares	Share capital
Balance, December 31, 2001	111,957,045	$ 554,781
Issued for cash on exercise of options (Note 12)	990,374	8,079
Balance, December 31, 2002	112,947,419	562,860
Issued for cash on exercise of options (Note 12)	413,294	3,118
Repurchased for cancellation	(186,500)	(930)
Balance, December 31, 2003	113,174,213	$ 565,048

During 2003, the Company repurchased for cancellation 186,500 common shares pursuant to a normal course issuer bid at an average price of $9.81 per share. The excess of the purchase cost over the book value of the shares was charged to retained earnings.

11. CONVERTIBLE DEBENTURES

In 1998, the Company issued $91.3 million in convertible unsecured subordinated debentures for net proceeds, after costs, of $90.0 million. The debentures mature on December 31, 2005 and bear an interest rate of 6.0% per annum. The debentures may be converted by the debenture holders into common shares of the Company at a conversion price of $15.00 per share (subject to adjustment upon the occurrence of certain dilutive events), any time prior to maturity or the day immediately preceding the date fixed for redemption. If all of the debentures are converted, 6,086,667 common shares of the Company would be issued.

At its option, the Company may redeem the debentures until December 8, 2004, provided that the 20-day average of the Company's share price is not less than 125% of the conversion price. On and after December 8, 2004, the debentures will be redeemable at the Company's option at any time at par plus any accrued and unpaid interest.

The Company has the unrestricted option to satisfy payment on the redemption or maturity of the debentures, and its interest obligations, by issuing common shares of the Company. Accordingly, the convertible debentures have been classified as equity, including $7.3 million of the proceeds allocated to the value of the debenture holders' conversion option. Carrying charges, including coupon interest, on an after-tax basis, are classified as a distribution of equity and as a deduction in calculating earnings per common share.

12. STOCK-BASED COMPENSATION

Under the Maple Leaf Foods Share Option Plan, as at December 31, 2003 the Company may grant options to its employees and employees of its subsidiaries to purchase up to 12,880,799 shares of common stock. Options are granted from time to time by the Board of Directors on the recommendation of the Human Resources and Compensation Committee. The vesting conditions are specified by the Board of Directors and may include continued service of the employee with the Company and/or other criteria based on a measure of the Company's performance.

A summary of the status of the Company's stock option plans as at December 31, 2003 and 2002, and changes during these years is presented below:

	2003		2002	
	Options outstanding	Weighted average exercise price	Options outstanding	Weighted average exercise price
Outstanding, beginning of year	10,853,467	$ 12.13	10,572,064	$ 11.25
Exercised	(413,294)	7.55	(990,374)	8.17
Granted	2,742,000	10.34	2,503,500	14.36
Expired and terminated	(843,178)	12.99	(1,231,723)	12.27
Outstanding, end of year	12,338,995	11.83	10,853,467	12.13
Options currently exercisable	4,756,886	$ 11.91	5,073,408	$ 11.55

All outstanding share options vest and become exercisable over a period not exceeding six years (time vesting) from the date of grant and/or upon the achievement of specified performance targets (based on return on net assets, earnings, share price or total stock return relative to an index). The options have a term of between seven and 10 years.

The number of share options outstanding at December 31, 2003, together with details regarding time and performance vesting conditions of the options, is as follows:

	Options outstanding			Options currently exercisable		Options subject to time vesting only		Options subject to performance vesting	
Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining term (in years)	Number exercisable	Weighted average exercise price	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
$ 5.26 to 9.12	1,856,393	$ 8.85	3.6	1,335,093	$ 8.76	—	$ —	521,300	$ 9.08
10.00 to 10.31	2,553,500	10.29	6.6	67,500	10.15	15,000	10.31	2,471,000	10.29
10.57 to 10.97	2,430,400	10.87	4.8	679,900	10.89	1,245,200	10.90	505,300	10.75
11.10 to 14.00	2,710,517	12.64	2.9	1,958,608	12.68	534,981	12.55	216,928	12.55
14.51 to 18.47	2,788,185	15.27	4.4	715,785	16.80	55,400	14.90	2,017,000	14.74
$ 5.26 to 18.47	12,338,995	$ 11.83	4.5	4,756,886	$ 11.91	1,850,581	$ 11.49	5,731,528	$ 11.87

During 2003, the Company granted 2,742,000 stock options at a weighted average exercise price per share of $10.34. The fair value of the options issued in the year was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2003	2002
Expected option life	4.2 yrs	4.2 yrs
Risk-free interest rate	4.2%	4.9%
Expected annual volatility	35.6%	38.7%
Dividend yield	1.6%	1.1%

The estimated fair value of the options issued in 2003 was $5.8 million (2002: $8.8 million). This value is amortized to income over the vesting period of the related options.

In 2003, the Company elected to early-adopt the new "Stock-based Compensation and Other Stock-based Payments" accounting rules on a prospective basis. Accordingly, for 2003 the Company charged $0.8 million to earnings during the year representing the pro rata amortization of the fair value of stock options granted in 2003.

During 2002, the Company granted 2,503,500 stock options at a weighted average price per share of $14.36. The effect of these stock option awards, had they been charged to earnings during the year on a fair value basis, would have been an expense of $3.5 million (2002: $1.8 million) with a related reduction to diluted earnings per common share of $0.03 (2002: $0.02).

13. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	2003	2002
Numerator:		
Net earnings	$ 35,068	$ 84,686
Convertible debenture charge (Note 11)	(4,851)	(4,710)
Earnings available to common shareholders	$ 30,217	$ 79,976
Denominator:		
Weighted average common shares outstanding (in millions)	113.064	112.589
Effect of dilutive securities (in millions):		
Employee stock options [1]	0.226	0.757
Weighted average shares – diluted (in millions) [2]	113.290	113.346

(1) Excludes the effect of 5.2 million options (2002: 1.1 million) to purchase common shares that are anti-dilutive.

(2) For 2003 and 2002, the convertible debt is anti-dilutive.

	2003	2002
Earnings per share:		
Basic	$ 0.27	$ 0.71
Diluted	0.27	0.71

14. OTHER INCOME (EXPENSE)

	2003	2002
Gain on sale of investments, net	$ 362	$ 1,340
Earnings from associated companies	51	715
Dividends received	39	1,629
Gain (loss) on sale of property and equipment	(142)	14
Gain (loss) on real estate operations	(192)	4,796
Fees related to bakery reorganization (Note 18)	(1,832)	(3,400)
Other	337	261
	$ (1,377)	$ 5,355

15. INTEREST EXPENSE

	2003	2002
Interest expense on long-term debt	$ 62,896	$ 51,638
Other net interest expense	5,473	4,651
	$ 68,369	$ 56,289

16. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income taxes rate as a result of the following:

	2003	2002
Income tax expense according to combined statutory rate of 37.3% (2002: 39.7%)	$ 24,251	$ 60,613
Increase (decrease) in income taxes resulting from:		
Adjustment to net future tax liabilities for changes in tax laws and rates	156	(438)
Rate differences in foreign subsidiaries	(4,543)	—
Manufacturing and processing credit	(2,035)	(5,701)
Non-taxable gains	(2,313)	(756)
Share option expense	293	—
Tax on foreign dividends	1,253	—
Equity in earnings of associated companies	220	786
Dividends not taxable	—	(577)
Large Corporations Tax	1,883	1,799
Other	3,714	(779)
	$ 22,879	$ 54,947

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31 are presented below:

	2003	2002
Future tax assets:		
Non-capital loss carryforwards	$ 97,989	$ 93,248
Accrued liabilities	19,425	17,126
Deferred interest deductions	—	6,601
Tax on intra-subsidiary asset transfer	21,017	—
Other	914	7,993
	$ 139,345	$ 124,968
Future tax liabilities:		
Property and equipment	$ 84,173	$ 75,484
Cash basis farming	10,044	7,721
Investments in associated companies	1,129	1,129
Net pension asset	53,655	51,123
Other	6,811	8,384
	$ 155,812	$ 143,841
Classified in the consolidated financial statements as:		
Future tax asset – current	$ 4,854	$ 5,847
Future tax asset – non-current	29,906	21,733
Future tax liability – current	(830)	—
Future tax liability – non-current	(50,397)	(46,453)
Net future tax liability	$ (16,467)	$ (18,873)

17. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

	2003	2002
Accrued benefit obligation:		
Balance, beginning of year	$ 642,556	$ 659,858
Current service cost	9,812	8,332
Interest cost	32,520	41,075
Benefits paid	(37,550)	(57,116)
Actuarial losses (gains)	(10,712)	13,274
Employee contributions	3,644	6,038
Annuity purchase and cash transfers related to Plan 100	(138,547)	(29,035)
Plan amendments	—	130
Balance, end of year	$ 501,723	$ 642,556
Plan assets:		
Fair value, beginning of year	$ 917,727	$ 1,034,098
Actual return on plan assets	101,868	(37,483)
Employer contributions	3,450	1,652
Employee contributions	3,644	6,038
Benefits paid	(37,550)	(57,116)
Asset transfer to Company defined contribution plan	(8,491)	(427)
Annuity purchase and cash transfers related to Plan 100	(138,547)	(29,035)
Surplus distributions to Plan 100 beneficiaries	(22,232)	—
Surplus distributions to Maple Leaf Foods Inc.	(27,251)	—
Fair value, end of year	$ 792,618	$ 917,727
Funded status – plan surplus	$ 290,895	$ 275,171
Unamortized transition amount	(208,914)	(270,595)
Unamortized net actuarial loss	73,630	148,984
Unamortized prior service cost	1,220	1,021
Accrued benefit asset	$ 156,831	$ 154,581

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2003	2002
Discount rate	6.0%	6.5%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of compensation increase	4.0%	4.0%

The Company's net benefit plan income for the year ended December 31, related to both defined benefit and defined contribution plans, is as follows:

	2003	2002
Current service cost – defined benefit	$ 9,812	$ 8,332
Current service cost – defined contribution	8,491	427
Interest cost	32,520	41,075
Expected return on plan assets	(53,536)	(72,444)
Net amortization and deferral	(23,337)	3,127
Net benefit plan income	$ (26,050)	$ (19,483)

In the fourth quarter of 2002, final regulatory approval was issued by the Superintendent of Financial Services of Ontario of a surplus sharing agreement reached between the Company and the beneficiaries of Plan 100, a defined benefit pension plan established for hourly workers in certain of the Company's Canadian meat processing operations. This approval allowed the Company to begin the process of settling liabilities and disbursing surplus in accordance with the applicable laws. During the fourth quarter of 2002, the Company settled a portion of the Plan 100 liabilities through the purchase of annuities in the amount of $29.0 million, and recorded an $8.6 million pre-tax settlement gain included in net amortization and deferral. During 2003, following further approvals related to payment to Quebec beneficiaries, the Company settled the remaining Plan 100 liabilities through the purchase of annuities and recorded a $9.5 million pre-tax settlement gain following payments to other Plan 100 beneficiaries during 2003. This gain is included in net amortization and deferral in the table above. The Company received $27.3 million related to the Plan wind-up. The Company has other post-retirement benefit obligations of $6.9 million that are recorded as other long-term liabilities.

18. INVESTMENT IN CANADA BREAD

2003

On January 28, 2003, the Company purchased four million shares from Canada Bread treasury at $26.50 per share in a private placement transaction. Proceeds from the financing of $106.0 million were used to pay down debt owing by Canada Bread to Maple Leaf Foods.

During the year, the Company purchased 2,068,400 common shares of Canada Bread on the market at an average cost of $25.65 per share and a further 819,400 shares for $26.50 pursuant to several private agreements.

These share purchases, aggregating $180.8 million, increased Maple Leaf Foods' ownership of Canada Bread from 68.3% to 84.7%. The preliminary allocation of the purchase cost has created $43.8 million in goodwill.

2002

In December 2002, Canada Bread purchased all of Maple Leaf Foods' U.S. and U.K. bakery operations, including Grace Baking Company, for approximately $262.3 million, inclusive of debt assumption of $10.7 million. This transaction has been accounted for at book value, however, transaction costs of $1.8 million (2002: $3.4 million) have been expensed and included in other income (expense).

19. ACQUISITIONS AND DIVESTITURES

On July 4, 2003, Canada Bread purchased the assets of a waffle manufacturer located in Richmond Hill, Ontario, for $6.2 million. The allocation of the purchase cost to the assets and liabilities is preliminary.

In April 2002, Canada Bread acquired the remaining 40% of the shares of Ben's Limited in Atlantic Canada to hold 100%.

In July 2002, Canada Bread acquired all of the outstanding shares of Olafson's Baking Company Inc. of Delta, British Columbia. The initial purchase price was $11.5 million with additional consideration of up to $10.2 million payable until February 28, 2004, depending on the attainment of certain financial targets. In 2003, the Company paid a further $3.2 million in respect of these amounts. As at December 31, 2003, a maximum remaining amount of $7.0 million may be payable which would result in additional goodwill.

In October 2002, the Company acquired Grace Baking Company of San Francisco, California. Grace Baking Company is a leading U.S. producer of premium fresh and frozen artisan bread products.

Details of net assets acquired and purchase adjustments made in 2003 and 2002 are as follows:

	2003	2002
Cash	$ —	$ 988
Net working capital (deficit)	(9,915)	(2,415)
Other long-term assets	56	(1,715)
Property and equipment	(2,524)	4,674
Goodwill and other intangibles	17,162	78,055
Long-term debt and debt due to parent company	—	(10,347)
Future income taxes	2,985	5,924
Minority interest	(762)	4,406
Total purchase cost	$ 7,002	$ 79,570
Consideration:		
Cash	$ 7,002	$ 67,955
Accounts payable, accrued charges and long-term debt	—	11,615
	$ 7,002	$ 79,570

20. CONTINGENCIES AND COMMITMENTS

(a) In 1999, the Company entered into agreements, including a conditional sales agreement, to finance $130.0 million of the construction cost of a new hog processing facility in Brandon, Manitoba. In 2006, the Company has the option to purchase the facility for $78.0 million or to put the facility back to the seller. The obligations under the agreement have been accounted for as an operating lease (Note 20(d)). Obligations related to these agreements at December 31, 2003 amounted to $113.8 million (2002: $126.8 million).

(b) The Company has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

(c) In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variable prices. With respect to certain of its contracts, the Company has the right to acquire at fair value, and the suppliers have the right to sell back to the Company, certain assets which have an estimated fair value of $22 million. The Company believes that these contracts serve to reduce risk, and it is not anticipated that losses will be incurred on these contracts.

(d) The Company has operating lease, rent and other commitments, including commitments under the agreements in Note 20(a) in respect of property and equipment used in operations, which require minimum annual payments as follows:

2004	$ 44,084
2005	34,193
2006	101,988
2007	8,509
2008	6,857
Thereafter	6,661
	$ 202,292

21. SEGMENTED FINANCIAL INFORMATION

The Company's operations are classified into the following three primary business segments, which have been used for the operating segment disclosures for all years presented:

(a) Meat Products Group includes the Company's meat and meat-related businesses, comprising the fresh pork, prepared meats, poultry and international food trading operations.

(b) Agribusiness Group includes the Company's feed and pet food businesses, the Rothsay rendering business, swine production, poultry growing and hatching operations.

(c) Bakery Products Group is composed of Maple Leaf's 84.7% ownership in Canada Bread Company, Limited, a producer of fresh and frozen par-baked bakery products, and fresh pasta and sauces.

(In millions of Canadian dollars)	2003	2002
Sales to customers		
Meat Products Group	$ 2,869.9	$ 2,952.9
Agribusiness Group	918.8	943.9
Bakery Products Group	1,253.2	1,179.1
	$ 5,041.9	$ 5,075.9
Earnings from operations, before restructuring costs		
Meat Products Group	$ 12.7	$ 66.8
Agribusiness Group	81.6	66.8
Bakery Products Group	58.1	70.0
	$ 152.4	$ 203.6
Capital expenditures		
Meat Products Group	$ 36.8	$ 32.4
Agribusiness Group	31.0	35.0
Bakery Products Group	64.8	24.8
	$ 132.6	$ 92.2
Depreciation		
Meat Products Group	$ 41.7	$ 41.2
Agribusiness Group	18.8	16.5
Bakery Products Group	40.4	38.5
	$ 100.9	$ 96.2
Total assets		
Meat Products Group	$ 666.5	$ 694.0
Agribusiness Group	555.7	500.0
Bakery Products Group	716.5	742.8
Non-allocated assets	210.0	252.4
	$ 2,148.7	$ 2,189.2

The Agribusiness Group operating earnings include the Company's share of losses from equity-accounted hog investments in the amount of $1.7 million (2002: $2.9 million).

During the year, total sales to customers outside of Canada were $1,773.4 million (2002: $1,827.2 million) of which $883.5 million (2002: $898.2 million) were sales to customers in the United States.

22. ACQUISITION OF SCHNEIDER CORPORATION

On September 25, 2003 the Company signed an agreement to acquire Schneider Corporation ("Schneiders") of Kitchener, Ontario, for US$378 million (see Note 8). The transaction requires Canadian Competition Bureau clearance in order to close. The agreement has an expiration date of March 31, 2004 unless extended by mutual consent. If the transaction does not close, the Company may be required to pay $10 million to the vendor.

In December, the Company finalized an underwritten bank facility of $300 million. The proceeds will be available when the Schneiders transaction closes and will be used to (i) finance a portion of the purchase price for Schneiders and (ii) refinance, if appropriate, existing debt of Schneiders. The facility is repayable one year from the acquisition closing date and will bear interest based on bankers' acceptance rates.

The Ontario Teachers' Pension Plan Board has provided the Company with a standby commitment to purchase, at the Company's option, up to $150 million of treasury shares of the Company at any time within 12 months of the closing of the transaction. Pricing of shares under this arrangement would be at a 6% discount to the market trading price of the Company's common shares prior to an issue.

CORPORATE GOVERNANCE

The Board of Directors, significant shareholders and management of the Company believe strongly in the importance of good corporate governance as a mechanism for ensuring that the affairs of the Company are conducted in its best interest, which will benefit its shareholders. Due regard to other stakeholders' interests are respected. The Board's policy on corporate governance is to conform itself to the best practices in the industry and endeavour to observe to the greatest extent practicable, the guidelines of the Toronto Stock Exchange committee formed to consider corporate governance (the "TSX Guidelines").

Compliance with the TSX Guidelines

The Company meets all but one of the TSX Guidelines. Responsibility for nominations to the Board are subject to an agreement between the Company's two largest shareholders. Unless McCain Capital Corporation ("MCC") and Ontario Teachers' Pension Plan Board ("OTPPB") otherwise agree, the Board is to be composed of the Chief Executive Officer, two nominees of OTPPB, three nominees of MCC, and seven independent directors to be recommended by MCC and approved by OTPPB. The TSX Guideline recommending that nominations for Directors be a responsibility of a Nominating Committee composed exclusively of unrelated directors is not met.

Composition of the Board of Directors

The Board consists of 13 members. The Board is of the view that at least eight of the 13 directors do not have any interests in or relationships with either the Company or its significant shareholders, MCC and OTPPB. The Board has also concluded that 10 directors are "unrelated" as the term is used in the TSX Guidelines.

A more comprehensive analysis of corporate governance matters is included in the Management Proxy Circular for the April 28, 2004 Shareholders' Meeting.

BOARD OF DIRECTORS

Purdy Crawford O.C.

Counsel, Osler, Hoskin & Harcourt and
Chairman, AT&T Canada Corp.
(Law firm and telecommunication services company)

Mr. Crawford is a director of a number of U.S. and Canadian companies. Until February 2000, he was the non-Executive Chairman of Imasco Limited and CT Financial Services. Mr. Crawford is an Officer of the Order of Canada and a member of the Canadian Business Hall of Fame.

Jean-Claude Delorme O.C., O.N.Q.

Corporate Director

Mr. Delorme serves on the boards of directors of a number of Canadian and international companies. He was Chairman of the Board and CEO of the Caisse de dépôt et placement du Québec until 1995. Mr. Delorme is an Officer of the Order of Canada and of the Ordre National du Québec.

Jeffrey Gandz

Professor, Richard Ivey School of Business,
University of Western Ontario

Mr. Gandz has been a consultant for many Canadian financial institutions, corporations and government ministries, as well as the author of books and government reports on a variety of subjects including management and organization.

James F. Hankinson

Corporate Director

Mr. Hankinson is a director of a number of Canadian companies. Mr. Hankinson retired as President and CEO of New Brunswick Power Corporation in 2000. He was President and Chief Operating Officer of Canadian Pacific Limited until 1995.

Robert W. Hiller

Corporate Director

Mr. Hiller has served as a director and senior officer of a number of large multi-national food companies in the United States and in Canada. Until 1991, he was Senior Vice-President and Chief Financial Officer of the Campbell Soup Company Limited.

Chaviva M. Hosek

President and Chief Executive Officer
Canadian Institute of Advanced Research (Research institute)

Dr. Hosek served from 1990 to 2000 as Senior Policy Advisor in the Prime Minister's Office and to the Leader of the Opposition, as well as Director, National Liberal Caucus Research Bureau. Dr. Hosek served as MPP, Oakwood, Minister of Housing, Government of Ontario from 1987 to 1990 and a Research Partner at Gordon Capital Corporation prior to 1987.

Donald E. Loadman

Corporate Director and Business Consultant

Mr. Loadman's career includes service in Canada and the United States with three multi-national food and packaged goods companies. Until 1991 Mr. Loadman was Chairman of Pillsbury International. Mr. Loadman is a resident of California. Until 1996, Mr. Loadman was Chairman of Ault Foods Limited.

G. Wallace F. McCain O.C.
Chairman, Maple Leaf Foods Inc.

Mr. McCain was appointed Chairman following the acquisition of the Company in April 1995. Mr. McCain co-founded McCain Foods Limited in 1956 which has grown to become one of the largest frozen food companies in the world. Mr. McCain was President and Co-CEO of McCain Foods Limited until 1994 and is currently its Vice-Chairman. Mr. McCain is an Officer of the Order of Canada.

J. Scott McCain
President and Chief Operating Officer, Agribusiness Group, Maple Leaf Foods Inc.

Before joining Maple Leaf Foods Inc. in April 1995, Mr. McCain was Vice-President for Production of McCain Foods Limited in Canada, a company he joined in 1978.

Michael H. McCain
President and Chief Executive Officer, Maple Leaf Foods Inc.

Mr. McCain joined Maple Leaf Foods Inc. in April 1995 after 16 years with McCain Foods Limited in Canada and the United States. Prior to leaving in March 1995, Mr. McCain was the President and Chief Executive Officer of McCain Foods USA Inc.

J. Edward Newall O.C.
Chairman, Newall & Associates (Consulting firm)

Mr. Newall is also Chairman and Director of NOVA Chemicals Corporation and Chairman and Director of Canadian Pacific Railway Ltd. In 1998 retired as Vice-Chairman and CEO of NOVA Corporation. He is a director of Alcan Inc. and Royal Bank Financial Group. Mr. Newall is an Officer of the Order of Canada.

Gordon Ritchie
Chairman of Public Affairs, Hill & Knowlton Canada (Government and public relations company)

Mr. Ritchie is also CEO of Strategico Inc. and a director of a number of leading Canadian corporations. Mr. Ritchie had 22 years of distinguished public service. As Ambassador for Trade Negotiations, Mr. Ritchie was one of the principle architects of the Canada/United States Free Trade Agreement.

Robert T. Stewart
Corporate Director

Mr. Stewart is a director of a number of large North American companies in various industries. Mr. Stewart had a 40-year career with Scott Paper Limited, retiring in 1995 as Chairman and CEO.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee
R.W. Hiller, Chairman
J.F. Hankinson
D.E. Loadman
J.E. Newall
G. Ritchie

Corporate Governance Committee
P. Crawford, Chairman
J.-C. Delorme
J. Gandz
D.E. Loadman
R.T. Stewart

Environment, Health and Safety Committee
R.T. Stewart, Chairman
J.-C. Delorme
J.F. Hankinson
C.M. Hosek

Human Resources and Compensation Committee
J.E. Newall, Chairman
P. Crawford
J. Gandz
C.M. Hosek
G. Ritchie

CORPORATE COUNCIL

G. Wallace F. McCain
Chairman

Michael H. McCain
President and Chief Executive Officer and Chief Operating Officer, Meat Products Group

J. Scott McCain
President and Chief Operating Officer, Agribusiness Group

Richard A. Lan
President and Chief Operating Officer, Bakery Products Group

Thomas P. Muir
Chief Development Officer

Michael H. Vels
Chief Financial Officer

Wayne Johnson
Chief Human Resources Officer

Michael E. Detlefsen
Executive Vice-President, Vertical Coordination

Rocco Cappuccitti
Senior Vice-President, Transactions and Administration and Corporate Secretary

EXECUTIVE COUNCIL

(Includes Members of the Corporate Council and Senior Operating Management as follows)

Ronald Arnason
President, Landmark Feeds Inc. and Elite Swine Inc.

M. Edward Bilyea
President, Maple Leaf Foods International

Brock Furlong
President, Maple Leaf Poultry

Kevin P. Golding
President, Rothsay

Lynda J. Kuhn
Vice-President, Public and Investor Relations

Douglas J. MacFarlane
President, Canada Bread Frozen Bakery

C. Barry McLean
President, Canada Bread Fresh Bakery

Peter Maycock
Managing Director, Maple Leaf Bakery, U.K.

Bruce Miyashita
Vice-President, Six Sigma

Randy Powell
President, Maple Leaf Pork

Patrick Ressa
Chief Information Officer

Peter Smith
Vice-President, Corporate Engineering

George Szewchuk
Vice-President, Purchasing

Jerry Vergeer
President, Shur-Gain

Richard Young
President, Maple Leaf Consumer Foods

OTHER CORPORATE OFFICERS

J. Nicholas Boland
Vice-President and Corporate Controller

Natalie M. Marche
Vice-President and Treasurer

Judith A. Robinson
Assistant Corporate Secretary

CAPITAL STOCK

The Company's authorized capital consists of an unlimited number of voting and 23,400,000 non-voting common shares. At December 31, 2003, 91,174,213 voting shares and 22,000,000 non-voting shares were issued and outstanding, for a total of 113,174,213 outstanding shares. There were 1,247 shareholders of record of which 1,206 were registered in Canada, holding 99.4% of the issued voting shares.

All of the issued non-voting shares are held by Ontario Teachers' Pension Plan Board. These non-voting shares may be converted into voting shares at any time.

OWNERSHIP

The Company's major shareholders are McCain Capital Corporation holding 36,363,514 shares representing 32.1% of the total issued and outstanding shares issued and Ontario Teachers' Pension Plan Board holding 20,728,371 voting shares and 22,000,000 non-voting shares representing 37.8% of the total issued and outstanding shares. The remainder of the issued and outstanding shares are publicly held.

CORPORATE OFFICE

Maple Leaf Foods Inc.
30 St. Clair Avenue West
Suite 1500
Toronto, Ontario, Canada M4V 3A2
Tel: (416) 926-2000
Fax: (416) 926-2018
Website: www.mapleleaf.com

ANNUAL MEETING

The annual and special meeting of shareholders of Maple Leaf Foods Inc. will be held on Wednesday, April 28, 2004 at 11:00 a.m. at the Glenn Gould Studio, Canadian Broadcasting Centre, 250 Front Street West, Toronto, Canada.

DIVIDENDS

The declaration and payment of quarterly dividends are made at the discretion of the board of directors. Anticipated payment dates in 2004: March 31, June 30, September 30 and December 31.

SHAREHOLDER INQUIRIES

Inquiries regarding dividends, change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent:
Computershare Trust Company of Canada
Stock and Bond Transfer Department.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: (514) 982-7270
or 1-800-564-6253
or caregistryinfo@computershare.com

COMPANY INFORMATION

For public and investment analysis inquiries, please contact our Vice-President, Public and Investor Relations at (416) 926-2000.

For copies of annual and quarterly reports, annual information form and other disclosure documents, please contact our Senior Vice-President, Transactions and Administration and Corporate Secretary at (416) 926-2000.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario, Canada M5J 2Y1
Tel: (514) 982-7270
or 1-800-564-6253
or caregistryinfo@computershare.com

AUDITORS

KPMG LLP
Toronto, Ontario

STOCK EXCHANGE LISTINGS AND STOCK SYMBOL

The Company's voting common shares are listed on the Toronto Stock Exchange and trade under the symbol "MFI".

RAPPORT ANNUEL

Si vous désirez recevoir un exemplaire de la version française de ce rapport, veuillez écrire à l'adresse suivante : Premier vice-président, Transactions et administration et secrétaire de la société, Les Aliments Maple Leaf Inc., 30 St. Clair Avenue West, Toronto, Ontario M4V 3A2.

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